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Established 1887

Austria	12.5	Kenya	Sh. 7
Belgium	35.0	Libania	22.25
Denmark	4.0	Luxembourg	32.14
Egypt	2.0	Morocco	27.5
France	2.0	Netherlands	1.98
Germany	1.50	Nigeria	70.4
Greece	1.0	Portugal	3.34
Great Britain	2.0	Spain	20.0
India	1.0	Sweden	75.5
Iran	4.0	Switzerland	1.05
Italy	4.0	Turkey	1.15
Japan	1.0	U.S. Embassy (for)	50.0
		Yugoslavia	22.0

WEATHER — PARIS: Thursday, cloudy, Temp. 22-13
 23:15: Friday, cloudy, Temp. 22-13
 24:15: Saturday, sunny, Temp. 19-13 (23-22)
 25:15: Sunday, sunny, Temp. 24-18 (24-24)

ADDITIONAL WEATHER — COMICS PAGE

29,649

The U.S. Tax Revolt



Peter Saul, Wendell Johansson and Irene Merrill celebrate the early lead of Proposition 13.

Californians Vote Property-Tax Cut 2 to 1

LOS ANGELES, June 7 (AP) — Californians fed up with soaring property taxes gave landslide approval yesterday to a \$7-billion property-tax cut, a victory compared by tax crusader Howard Jarvis to a second Boston Tea Party.

Mr. Jarvis, the 75-year-old prime mover behind the state's property-tax revolt, told cheering supporters that the victory of Proposition 13 would touch off a similar revolt across the nation.

Proposition 13, which will cut property taxes statewide by an average of 57 percent, won by a margin of almost 2 to 1. The measure was approved what could be a record primary election turnout — more than 70 percent in Los Angeles and other urban areas.

It limits property-tax rates, now averaging 2.5 percent of value, to 1 percent, reducing the average homeowner's tax bill from the current \$1,400 a year to \$600. It also rolls back assessments to 1975 levels and limits future increases to 2 percent, unless property is sold.

Financial Challenge

"We are facing a legal and financial challenge such as the state has never seen," said Gov. Edmund Brown Jr. "It is my job to carry it out."

"This is not a partisan issue," he said. "The vote comes from liberals, conservatives, Democrats and Republicans."

For Gov. Brown, who harbors national political ambitions, implementing Proposition 13 will be perilous. He has promised he will not increase state taxes to offset the loss of property tax revenue to schools and local governments.

Hiring Freeze

He announced today that he is freezing all state hiring and state government job replacements as part of a plan to implement the tax initiative with as little disruption as possible.

He said the plan also includes limits on state spending, no new taxes, and state budget cuts "in all areas I can make them in without injuring anyone."

With 91 percent of the vote counted, Proposition 13 was ahead 3,872,228 to 2,125,740.

An alternative measure, Proposition 8, which was supported by the Legislature and would have cut property taxes an average of 30 percent, was narrowly defeated. But even had it passed, it would have been superseded by approval of Proposition 13.

Gov. Brown easily won renomination over eight unknowns in the Democratic gubernatorial primary. He will face Attorney General Evelle Younger, the victor in a four-way Republican race. Mr. Younger's main opponent was former Los Angeles police chief Ed Davis. Both Republicans supported Proposition 13.

The two GOP gubernatorial primary candidates who opposed the measure — Fresno assemblyman Ken Maddy and San Diego Mayor Pete Wilson — found their stand an insurmountable handicap.

Proposition 13 could be a factor in November's race between Gov. Brown and Mr. Younger. In polls taken before the primary, Mr. Younger, who supported the tax cut, had moved to a point nearly even with Gov. Brown, who opposed it.

Gov. Brown, who in recent days acknowledged that Proposition 13 appeared headed for victory, said returns showed that the people "want a spirit of austerity and that's what I'm going to do."

Jarvis Blows Kisses

But the man of the hour was clearly Mr. Jarvis, co-author of Proposition 13. He blew kisses and grasped hands of elated admirers at a gala celebration for what he called "the greatest victory in the history of the state of California."

"Let's begin tomorrow to take our tax victory across the U.S.," Mr. Jarvis declared while a band played "Happy Days Are Here Again."

He predicted that politicians would try to "cut the heart out of Proposition 13" but he vowed that taxpayers will fight every step of the way. "The taxpayer," he said, "has spoken. . . . To ignore us is political suicide."

Mr. Jarvis, a former newspaper publisher who is now executive secretary of a Los Angeles apartment owners association, led the petition drive that collected 1.5 million signatures to put the tax cut initiative on the ballot.

Proposition 13 was to take effect July 1, but it may now go to the courts. Also, the Legislature must decide whether to allocate state money to replace local funds or try to amend the proposition with another proposal in November.

Even before the polls closed, supporters of Proposition 13 offered to help property-tax protesters in other states prepare similar programs. Opponents, meanwhile, drafted suits challenging the initiative's constitutionality.

(Yesterday's voting in U.S. primaries. Page 2.)

U.S. Airlifts 1,500 Moroccans into Lubumbashi

Belgium to Coordinate Zaire Pullout With Africans

From Wire Dispatches

LUBUMBASHI, Zaire, June 7 — Belgian government today announced it would withdraw its contingent of troops from Zaire as soldiers from African countries arrive to take over from them.

Meanwhile, President Mobutu Seko patched up differences with neighboring Zambia and said he would restore order in embattled Shaba province two weeks.

The diplomatic activity coincided with the completion of the first "lift" of the all-African force that will take over the peacekeeping mission in Shaba.

More than 1,500 Moroccan troops arrived in the provincial capital of Lubumbashi aboard U.S. C-141 transports.

Other transports landed in Senegal and Gabon. A small party of Senegalese already has arrived in Zaire. The planes are to bring an additional 300 to 400 troops as part of the African force to replace the French and Belgian paratroopers.

The Zaire news agency AZAP said Egypt will send heavy artillery and instructors to Zaire to join the force.

Zambian President Kenneth Kaunda paid a one-day surprise visit to Lubumbashi yesterday for what AZAP said would be "difficult" talks with Mr. Mobutu.

The two leaders earlier had bitter exchanges over the invasion of Shaba through northern Zambia last month by Angola-based rebels and their retreat over the same route in stolen vehicles piled high with loot.

Mr. Kaunda told AZAP after his talks with Mr. Mobutu that his army had stopped and disarmed part of the rebel force on its way to sanctuary in Angola. "This proves sufficiently that Zambia will never favor any rebel attack against Zaire from its territory," he said.

Talks Called Fruitful

He reiterated that the rebels had attacked via northern Zambia without his government's knowledge. Mr. Kaunda said his talks with Mr. Mobutu "have been fruitful and led to satisfactory results."

"There is nothing left that could harm the good relations between Zaire and Zambia," he said before returning to Lusaka.

Mr. Mobutu interrupted his talks with Mr. Kaunda to attend a farewell ceremony for the legionnaires, being flown back to their base in Corsica aboard the same U.S. planes that brought the Moroccans.

He awarded medals to the French paratroopers who jumped into the mining town of Kolwezi May 19 to rescue 2,500 whites from nine days of rebel terror.

The 600 Belgian paratroopers who joined the rescue operation in Kolwezi are still spread out in several towns to reassure the white population, but Premier Leo Tindemans announced in Brussels that they would begin leaving, probably within the next two weeks. The Belgian force originally totaled 1,700 men. The Belgian withdrawals will be phased to allow the African force to relieve the troops.

New York City's Death Rate Higher Than in Rest of U.S.

NEW YORK, June 7 (UPI) — Statistics show that the rate of death from all causes in New York City is 16 percent higher than the rate for the nation.

The National Health Education Committee has compiled statistics that show the death rate from all causes in New York City is 17 percent higher than that for the rest of New York State and New Jersey, and 24 percent higher than that of Connecticut.

The committee said Sunday that according to 1976 figures, the New York City "crude" death rate of 10.3 per thousand is 16 percent higher than the overall death rate of 8.9 for the country.

The average age of death from all causes in New York City in 1976 was 66.5 years compared to 67.3 throughout the nation.

Heart disease was the leading cause and was 30.3 percent higher than the nation's 1977 rate. The committee blamed lack of screening and treatment centers for high-blood pressure in the city's poor neighborhoods.

Somali Troops Reported Back in Ogaden

By Michael T. Kanyman

NAIROBI, June 7 (NYT) — Three months after regular Somali units were chased from the Ogaden region of Ethiopia by a Cuban and Soviet-backed counteroffensive, they are back in the area fighting as guerrilla bands, Western diplomats say.

After the withdrawal, some of the soldiers shed their uniforms, put on desert robes and switched tactics," a diplomat said. Although the operation is once again being depicted as a local insurgency of indigenous Ogaden Somalis, he added, "we believe they are getting the full support of the Mengistu regime while purporting to be the Western Somali Liberation Front."

Diplomats Claim Defeated Units Regroup, Fight a Guerrilla War

The current fighting reportedly involves no attempt on the part of the Somalis to seize or control any of the vast Ogaden region which the government of President Mohammed Siad Barre has long claimed as an integral part of the Somali nation.

The Somalis are reportedly using hit-and-run tactics. In contrast with the conflict earlier this year, they now have no highly mechanized units fighting conventional battles against Ethiopian units. They are laying land mines and making harassment strikes at scattered outposts of Ethiopian authority.

Ethiopian Silence

"Still," a European diplomat said, "there are Ethiopian soldiers being killed, in small numbers but regularly."

Some diplomats find it notable that the government in Addis Ababa has not raised the issue in any public forum. Through statements released by ambassadors there and

By Robert C. Siner

WASHINGTON, June 7 (IHT) — "The Soviet Union can choose either confrontation or cooperation," President Carter declared today, and "the United States is adequately prepared to meet either choice."

Delivering what had been described in advance as a major foreign policy address explaining the administration's position vis a vis the Soviet Union, Mr. Carter warned that while "detente" between our two countries is central to world peace, "it can only work if it is 'mutually reciprocal.'"

Speaking during graduation ceremonies at the U.S. Naval Academy, the president said that the United States sees detente as a process that "increasingly involves similar restraint for both sides, similar readi-

ness to resolve disputes by negotiations and not violence, similar willingness to compete peacefully and not militarily."

But in contrast, the president said, "to the Soviet Union, detente seems to mean a continuing aggressive struggle for political advantage and increased influence in a variety of ways," adding: "The Soviet Union sees military power and military influence as the best means of expanding its influence abroad."

He cited the "persistent and increasing military involvement of the Soviet Union and Cuba in Africa" as an example of this attitude and expressed deep concern over "this threat to regional peace and the autonomy of countries within which these troops seem permanently to be stationed."

"This is why," he said, "I and the American people will support African efforts to contain such intrusion, as we have recently done in Zaire."

However, during his 31-minute address, Mr. Carter mixed some conciliatory language with his hard-line talk.

The president said that he was convinced that the Soviet people want peace and that the Soviet government was trying in "good faith" to complete a new strategic arms limitation treaty.

But he warned that the recent increase in tensions between the Soviet Union and the United States could damage the relationship between the two superpowers.

"I do not wish this to happen," he said. "I do not believe Mr. Bre-

zhnev desires it either — and this is why it is time for us to speak frankly and to face the problem squarely."

The speech was delivered against a background of rising East-West tensions, fueled by the continuing buildup of Warsaw Pact forces in Europe, increasing Soviet and Cuban involvement in Africa and Soviet denial of human rights to its own citizens.

There has also been some confusion about the U.S. position on SALT, with published reports, vehemently denied by Mr. Carter, that the administration had, in effect, decided to delay any possible agreement on arms limitation for political and foreign policy reasons.

Diplomatic observers have said that the United States has been giving conflicting signals about its intentions in international affairs and, in his speech, Mr. Carter appeared to be trying to clarify the U.S. position and to

dispel any impressions of lack of resolve.

"Let there be no doubt about our present and future strength," he declared, adding that "the healthy self-criticism and free debate which are essential in a democracy should never be confused with weakness, despair or lack of purpose."

Mr. Carter outlined the "principal elements" of U.S. policy toward the Soviet Union as:

• Maintenance of "equivalent nuclear strength."

• Strengthening of NATO, more mobile forces and an undiminished presence in the Pacific maintained by a "prudent and sustained level of military spending."

• Support of worldwide and regional organizations "dedicated to enhancing international harmony."

• Seeking of "peace, better communication and understanding, and enhanced trade, cultural and scientific exchanges with the Soviet Union and other nations."

• "The money would be distributed among Nazi victims who are not eligible under the existing compensation programs."

West Germany's coalition government took the position that no new program could be undertaken without the agreement of the four parties represented in the Bundestag (parliament).

Agreement in Principle

Sources close to the deliberations said yesterday that all four parties — the Social Democrats, the Free Democrats, the Christian Democrats and the Christian Socialists — have agreed in principle to a program to be administered by the Jewish claims commission.

The existing programs have been criticized by Jews and others because they set a 1969 deadline for persons to apply for restitution. Immigrants of the past decade, particularly those from Eastern Europe, complain that they were unable to file claims before the deadline.

More recently, representatives of the world's 10 million Gypsies have put pressure on Bonn to compensate them as a national group for Nazi atrocities against them.

Hundreds of thousands of Gypsies died in Nazi death camps along with 6 million Jews and thousands of mental patients, physical cripples and political opponents of Hitler.

Deterrant Cited

Mr. Haddad said that the executions were carried out "to deter others from trying to organize political activity in the armed forces," adding that the 1973 agreement on the establishment of the National Progressive Front had clearly stipulated that only the Ba'ath Party could be active inside the armed forces.

He said that the Communist Party had violated the agreement and that the formation of cells had been the beginning of an attempt to overthrow the existing order. "What else can the formation of an organization in the armed forces mean?" he asked.

Soviet Ties Unchanged

Arab press reports of a crack-down on the Iraqi Communist Party gave rise to intense speculation that Iraq — the only Arab country linked to the Soviet Union by a formal treaty — was considering changing its relations with the Kremlin. But Mr. Haddad emphasized that the Iraqi leadership had no such plans.

"As far as we are concerned," he said, "our strategic alliance with the Soviet Union will remain unchanged."

Mr. Haddad said that those executed were military men who had been convicted by civil courts. "Some were tried in 1975, some in 1976, some last year," he said. Ten received lesser sentences.

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'Confrontation or Cooperation'

Detente or Not, Russians Must Decide, Carter Says



President Carter addressing the Naval Academy yesterday.

• Prevention of the spread of nuclear weapons.
 • Continued constructive and persistent negotiations toward a new strategic arms limitation treaty.

In his speech, the president invited the Soviet Union to join with the United States to bring about a peaceful resolution to the problems in Africa.

"Both nations must exercise restraint in troubled areas and in turbulent times," he said. "Both must honor meticulously those agreements which have already been reached to widen cooperation, to mutually limit nuclear arms production, to permit free movement of people and expression of ideas and to protect human rights."

Mr. Carter used strong language to denounce the Russians for the "abuse of basic human rights . . . which has earned them the condemnation of people everywhere."

The president said: "By their own actions they have demonstrated that the Soviet system cannot tolerate freely expressed ideas, nations of loyal opposition and the free movement of people."

The president also urged his audience and the American people to "avoid excessive swings in our public mood — from euphoria when things are going well to despair when they are not; from an exaggerated sense of compatibility to open expressions of hostility."

"Our long-term objective must be to convince the Soviet Union of the advantages of cooperation and the costs of disruptive behavior," Mr. Carter said.

During a briefing before the speech, senior administration officials said that the president intended not only to offer an "olive branch" to the Russians but also to give "a very clear expression" of concern over the Soviet arms buildup in Europe and adventures in Africa.

Moscow Responds

MOSCOW, June 7 (Reuters) — The Soviet Union today accused Mr. Carter of lying about Soviet society and military power during his speech.

Tass threw back at the president his assertion that Moscow could choose between confrontation and cooperation.

"Surely Carter knows full well that the Soviet Union that long ago and irrevocably chose the path of peaceful coexistence . . . but, evidently, in Washington's ruling circles the choice has still not been made," the news agency said.

Mr. Carter outlined the "principal elements" of U.S. policy toward the Soviet Union as:

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Revised World Food Forecast: Upbeat

But Mr. Yudelman warned that "it would be wrong to say there's no problem." He said in a report that "the core of the world food problem" involves countries with food deficits, large numbers of undernourished persons and inadequate foreign exchange reserves to pay for imports on commercial terms.

In 1975, these countries needed to purchase only about 12 million tons of grain in commercial world markets. Much of the remaining food deficit was covered by foreign loans and food aid. But, by 1990, as the food deficits of these countries increase, they will need to buy 70 million to 80 million tons, a volume beyond their ability to pay, Mr. Yudelman said.

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China and Indochina

That the withdrawal of the United States from military involvement in Indochina would not end the troubles of that region was patent enough from the beginning. But the extent of those troubles, and their nature, were not so obvious. It was not altogether possible to predict the kind of manic-maoism that has afflicted Cambodia, nor how this would affect Vietnam — and China.

China was a strong support for North Vietnam during its struggle with the South, both in actual supplies and in its mere presence. The latter was a prime factor in limiting U.S. action against Hanoi for so much of the war, because of haunting memories of the Chinese move across the Yalu in the Korean war.

Yet China and Vietnam have a long history of conflict, as well as a common border that can cause friction. So it was not surprising that Hanoi drew closer to Moscow than to Peking after the major fighting ended, or that Peking seemed to prefer the wild radicals at Phnom Penh over the more orthodox revolutionaries of Hanoi. The former did draw more on Mao than on Lenin, for one thing, and they might prove a balance in Indochina against the suddenly increased size and prestige of Vietnam.

This has now resulted in what the Chinese claim is the explosion of people of their blood from Vietnam, by the thousands.

Doubtless the current frictions have touched off this exodus, but there is another element in the anti-Chinese mood in Vietnam. Throughout all of Southeast Asia, Indonesia and far into the Pacific Islands, the Chinese represent not only an alien stock, but an economic class. Whether or not they arrived — and some remain — as coolies, laborers, they have usually risen to moneylenders, shopkeepers, white collar workers generally.

It was this rather than the Communism of mainland China that inspired the killings and deportations of Chinese in Indonesia. It is a major part of its rivalry between Chinese and Malays in Malaysia. It resembles, too, the actions taken against Bengalis and Sikhs in Burma and in Uganda, since those Indians performed much the same functions as the Chinese, and were equally resented.

In the relationship between China and Indochina there is the kind of complex mixture of racialism, economic rivalry, religious enmity and ideological competition that is so common in the developing world — and can be found in the ghettos of the United States and among the foreign workers in Europe. For the Chinese government, or those of Indochina, to play upon these differences, to exploit them for some short-term advantage, is to encourage fragmentation at a time when both China and Vietnam desperately need cooperation both within and without their borders.

A Double Blow by the Court

The privacy rights of the law-abiding were shabbily treated by the Supreme Court the other day when it held that police may search for evidence of crime on the premises of persons who are not themselves suspected of any crime.

The Fourth Amendment protects "the right of the people to be secure in their persons, houses, papers and effects against unreasonable searches," but the court said this sort of search was reasonable. Judicial warrants may now be obtained for unannounced, wide-ranging searches through files, drawers — even wastebaskets — without proof that such methods are needed to guard against destruction of the evidence. This decision strikes a double blow, at individual privacy and press freedom.

The premises in the case before the court were those of the Stanford University student newspaper, which claimed that its rights had been violated by a police search of its offices after a 1971 campus riot. Police wanted to search the newspaper's offices because a published photograph of the riot led them to believe there might be more photographic evidence. Their request for a warrant contained no charge that the Daily's staff had anything to do with the violence and no hint that the authorities feared destruction of the evidence. Extensive as the search was, it turned up nothing useful to the police.

The newspaper argued that the search violated the Fourth Amendment rights of citizens generally. The police, it was argued, could have sought their evidence by way of subpoena, a procedure that would have permitted orderly opposition. The newspaper also argued that First Amendment rights were infringed because such a sweeping search inevitably compromised information the police had no right to see. The court said no to both arguments.

Justice Byron White's majority opinion treated the newspaper arguments as though they had come from outer space. He said the

Stanford Daily was seeking "a major revision of the Fourth Amendment," by asking the court to "hold for the first time" that the validity of a search depends on the culpability of the search's target. But, as Justice John Paul Stevens showed in a lucid dissent, the court was not being asked to do anything so contrary to precedent. There was no precedent; the precise issue had never been before the Supreme Court. Until 1967, police could seek warrants only to look for such things as contraband, the fruits of a crime, or the instrumentalities of a crime, like a gun. In 1967 the court ruled — for the first time — that searches for "mere evidence" of crime were valid under the Fourth Amendment.

That decision was what shattered precedent. It then became more probable that searches would disrupt the lives of innocent parties who might readily come into possession of evidence of crime; it was open to the court in the Stanford Daily case to require special procedures safeguarding their interests. Instead, the court would now allow officials to treat the law-abiding like criminals.

The court's treatment of the First Amendment issue was just as cavalier. "We decline to reinterpret the amendment to impose a general constitutional barrier against warrants to search newspaper premises," said Justice White. But First Amendment considerations made even stronger the case for added safeguards against such a search. In this decade, it is hardly fanciful to worry that public officials bent on obstructing justice might invoke such authority malevolently. Even worse, wiretapping is merely one kind of a search; there seems to be no Constitutional barrier to court-approved wiretapping of reporters' telephones.

The court itself acknowledged that legislatures are free to enact added protections for individual privacy and press freedom. Considering the way this court now interprets the Fourth Amendment, Congress and the state legislatures would be well advised to do so promptly.

THE NEW YORK TIMES.

Other U.S. Opinion

Outlay for NATO

It's a mighty big commitment. And, however unfortunate it may appear in philosophical theory, it surely seems a practical necessity — the commitment reached by NATO summit conferences in Washington to spend as much as \$100 billion over the next decade to counter Soviet military power in Europe.

Despite continued efforts by the United States to move toward disarmament, the Soviet Union and its Warsaw Pact nations have steadily increased its military power and personnel in Eastern Europe, until now Communist military strength in Europe is considerably greater than the Western nations.

Faced with such conditions of fact, NATO had to react in kind — and so did, with the \$100 billion announcement following the close of the 15-nation group's meeting. In addition to the increased spending, NATO announced a long-term blueprint for welding

alliance forces into one wartime fighting unit.

President Carter also made it extremely clear that the United States is committed to NATO. In a closing statement to the allied leaders, he said that "an attack on Europe will have the full consequences of an attack on the United States. Let there be no misunderstanding. The United States is prepared to use all the forces necessary for the defense of the NATO area."

Those are tough words indeed, words that a good number of Americans will not like. In a perfect world, of course, no sensible people would like talk of war. And it's true that in this nuclear world, humanity's only real security lies in disarmament, certainly of all nuclear arms. But it takes two to tango; you know, and in Europe these days the Russians and fellow travelers are still war dancing.

— From the Atlanta Constitution.

In the International Edition

Seventy-Five Years Ago

MARSEILLES — Fifty-seven people were saved, but up to 150 are still missing today as a result of a collision yesterday off Marseilles between two passenger liners of the Fraissinet company, the Liban and Insulaire. The Liban sunk within 20 minutes after the collision and the Insulaire had to be trimmed by the stern and taken into port to avoid sinking. Fifty-seven persons of the Liban's total complement of 200, ten of them badly injured, were rescued from the wreckage along with 25 bodies.

Fifty Years Ago

LONDON — While complete silence continues regarding the fate of the Italia, the dirigible which has been missing in the Arctic since May 26, both Moscow and Rome are rapidly organizing search parties, according to dispatches received here today. While the Russian search party is already on route for Archangel on the theory that Gen. Umberto Nobile and his men are in Franz Josef Land, neither the United States nor Great Britain are in a position to help materially in the search, at least for the present.



Brzezinski-Young Tension Examined

By Jonathan Power

LONDON — When Zbigniew Brzezinski had his first meeting with the South African Foreign Minister, R.F. Botha in the early days of the Carter administration there was a remarkable bit of opening conversation. Brzezinski welcomed his rather nervous guest, still anxiously attempting to find out which way the Carter African winds were going to blow. Saying "When I was a boy I used to play toy soldiers and my favorites were the Boers. I always stuck up for them." Botha relaxed into a broad smile unaware of the punchline to follow. "But then I always have been in favor of liberation movements," finished Brzezinski.

The impact on Botha of the remark needs no elaboration. What is revealing is Brzezinski's own commitment to radical change in southern Africa, a position that has become confused as press attention has focused in on the divide opening up between him and Andrew Young.

Paper Over

Both Brzezinski and Young go to great lengths to paper over the cracks. Brzezinski talks about his hopes that Young will be the first U.S. black secretary of state, possibly within the life of the Carter administration. He anxiously enquires of visitors who know Young what Young thinks of him. I recall, too, asking him before Young was appointed to the UN job what Carter saw in him. He replied that Young was the "right combination of energy, vitality, realism and idealism." Yet I get the impression, talking to some national security council staff members, that Brzezinski's opinion of Young is rather less than the remark suggests.

Young admires Brzezinski's intelligence and his powers of articulation. Young also argues that the press reads more into their policy differences than there are. "When we are around the table together," he says, "there isn't the kind of tension and sense of undercutting that the press make out." At the same time it is obvious that Young finds Brzezinski too emotional when it comes to discussing Cuban and Soviet intervention in Africa, and doubts, as many do, Brzezinski's political sense.

The fact that the Young-Brzezinski differences have not been thrown into relief earlier is due to at least four main factors. First, at the beginning of the administration Brzezinski and Young were determined not to contradict each other in cabinet and policy meetings.

Unanimity

It was made easier by the unanimity of purpose on southern Africa before Rhodesian Prime Minister Ian Smith's "internal settlement" clouded the issues. And secondly because it was obvious to everyone, at least in the first year, that Young had Carter's ear. Indeed, Young's ideas on Africa were almost carried out to the letter, until Somalia invaded Ethiopia and the Russians and the Cubans came to the latter's aid. Third is the desire not to repeat the savage public infighting of the Nixon era. When there are differences it is almost impossible to get word of them from the close-knit principals themselves. One example was the debate on the "internal settlement" in Rhodesia in February. Young had grave reservations about the "settlement's" viability and was worried that any sympathy shown for it publicly would make the job of dealing with the guerrilla-based Patriotic Front more difficult.

Brzezinski wanted to give it some benefit of the doubt, anxious to avoid a situation where the useful South African cooperation would begin to diminish. Neither, however, would confide to outsiders their disagreement with the other. Only when working diplomats in Africa or London had to deal with the confusing signals coming out of Washington was it apparent how significant were the differences.

Happy

The fourth reason is the President's own way of working with his top aides. He seems happy to have them publicly pushing for contradictory policies as long as they

don't personalize the issues. Consequently the policy takes a while to emerge and even when it does, it often bears the marks of the earlier contradictions.

But can the Young-Brzezinski tension continue merely to simmer below the surface or will it at some point erupt into full frontal view?

Now that one way and another the world is so informed of the differences between Young and Brzezinski it will be less easy to keep their staff from talking about it and even for the two themselves not to be drawn into more direct confrontation. On the other hand, there is

still much that binds them together, apart from their loyalty to the same boss. Brzezinski after all is the author of a remarkable book "Between Two Ages" highly critical of the U.S. attitude to Third World aspirations. Young for his part shares a conviction that capitalist democracies offer the best hope of providing the leadership for real change in a revolutionary world and that U.S. values when fully lived up to are second to none.

Acceptance

Most important, however, is their common acceptance of the

value of a spiritual component to foreign policy. Brzezinski's desire for the West to stand for "something transcendent" if it is not to be viewed as a "materialist hedonist society without much historical relevance to the dilemmas of our time" is not too far different from Young's belief in the philosophy of Martin Luther King Jr.

Add to that the fact that both men, beneath their brave exteriors, share some of the same kind of anxieties over their roles and are repelled by situations that breed personal animosity and it is likely that their conflicts will be kept within bounds.

D-Day Plus 34 Years

By James Reston

WASHINGTON — On the 34th anniversary of the Allied invasion of Nazi-occupied Europe, the representatives of the United States, Britain, France, Belgium and West Germany met in Paris this week to consider what they could do, if anything, about the Communist activity in Africa.

They didn't do very much. In fact, they disappointed both the people who wanted them to confront the Russians and Cubans in Africa, and the people who wanted them to stay out of all the military and political tangles of that continent. But at least, they did something that may be symbolically important.

Historical analogies are usually misleading, and one of the problems at the moment is that there is a tendency on Capitol Hill these days to look on the Communist adventure in Africa as if it were as great a menace to freedom as the rise of Hitler. But the Allies do seem to be learning one of the lessons of the 1930s.

No Security

This is that there is no security for any nation except collective security with other nations; that there are no "far-away places" or conflicts that can be ignored, as Neville Chamberlain at first tried to dismiss the tragedy of Czechoslovakia, and that the security of the Atlantic nations cannot be preserved within the boundaries of the NATO treaty, but must be defended by cooperative action wherever it is threatened by direct or indirect Communist aggression.

The Allies are striking a fairly good balance in dealing with these problems in Africa. They have not made the mistake of treating all nations alike. They have defended the principle of majority rule in Rhodesia, without declaring economic

warfare on South Africa. They put together a combination of U.S. air power and European manpower to chase the invaders out of Zaire. They have warned the Russians not to overplay their hand in Africa, without confusing the conflict in Zaire, Ethiopia and Angola, with the larger and more important issue of getting the world arms race under control.

This moderate approach to a highly complicated and ambiguous set of world problems has created difficult political anxieties for President Carter. He has been talking tough to Moscow, and sending his national security adviser, Zbigniew Brzezinski, to Peking to remind the Russians that he can play the China card if necessary — but he has been acting very cautiously.

Not Jumping

He is not pulling out of Taiwan, or establishing full diplomatic recognition of the Chinese Communists, knowing that this might cost him enough votes to defeat any new strategic arms treaty with Moscow in the Senate.

He is not jumping into Zaire or ignoring it. He is not breaking relations with Cuba (though he probably will in the near future), but in consultation with his European allies, he is helping to establish, finance and transport a black African legion to counter Moscow's Cuban mercenaries.

Seldom since the Allies landed by sea and parachuted by air into Normandy 34 years ago have they been confronted by more difficult and subtle problems than they now have in Africa and the Middle East. They were fighting for their lives and countries then, and were united among themselves and with the Soviet Union in the final struggle against Hitler.

Letters

Political Wars

Rowland Evans and Robert Novak in their evaluation of the new chairman of the Joint Chiefs of Staff Gen. David Jones, (JHT, May 12), call to mind the importance of military ethics. Gen. Jones, they assert, "not only embraces but energetically applauds... Carter administration political initiatives."

It has been a tradition in the U.S. military that an officer should not become involved in political issues. The reason, of course, stems from the fact that the president of his political appointments such as the secretary of defense's appoint (and can remove) an officer, such as Gen. Jones, to a senior post. One of the duties of a military officer is to provide private military judgments to his civilian superiors on a continuing basis. He is also expected to

render military appraisals to the Congress when called upon to do so.

If an officer, in good conscience, cannot support an administration policy (a South Korean troop pullout) then, in accord with the U.S. military code which recognizes civilian control over the military, he should retire to private life where he is free to speak out on political issues. If he does not choose to retire, the president properly may remove him from his post, as Mr. Carter did by transferring Gen. Singlaub from South Korea to an obscure billet in Georgia from which he soon retired.

Conversely, it is equally inappropriate for a senior officer to lobby actively for the administration on major political issues as Gen. Jones reportedly has done.

Such political involvement creates doubts as to an officer's capability to render hard military judgments (which may not coincide with the desires of the White House) regardless of the consequences to this career.

This is the ethical issue raised by the Evans-Novak account which undoubtedly has caused concern within the military profession. A serving officer should not remain aloof from political wars. Otherwise the value of his independent military counsel may become suspect.

PAUL B. RYAN, Torremolinos, Spain.

The International Herald Tribune welcomes letters from readers. Short letters have a better chance of being published. All letters are subject to condensation for space reasons. Anonymous letters will not be considered for publication. Writers may request that their letters be signed only with initials but preference will be given to those fully signed and bearing the writer's complete address. The Herald Tribune cannot acknowledge letters sent to the editor.

California:

Assessing

Tax Revolt

By George F. Will

WASHINGTON — In an obscure but penetrating sonnet on modern citizenship (in 1953) Woodhouse's novel "The Luck of the Bodkins," published in 1953, the lady, Grayce, although wealthy, wants a necklace smuggled through customs. A friend explains: "Grayce doesn't like the idea of paying duty. She says it's such a waste, she says the government has got more money than is good for anybody and would only spend it on the military." Californians have believed that California is a state with whimsy, and worse. So many people will insist that there is a national significance to the referendum on Proposition 13, by which voters have sharply reduced property taxes and limited future increases.

In previous debates about limitation measures, in California and elsewhere, opponents have successfully emphasized the fact that reduced taxes mean reduced services. That fact seems to have its sting. California voters set its faces like flint and said to the government approximately what constituent recently said to Rep. Henry Reuss, D-Wis. The constituent stopped Reuss, a high octane liberal, in the Milwaukee airport and said: "When you go back to Washington, don't do anything to me. I can't afford it."

Populism

California has institutionalized populism by providing recurrent referenda in order to involve "the people" directly in legislation. Most advocates of such populist devices have been liberals who are without fear of the rude winds of populism. Their assumption has been that "the people" are "progressive" because they are, by definition, distinguished from "the interests." That in four referenda in the last 12 months "the people" have ministered thumping defeat to "homosexual rights" laws, and because conservatives approve the decisions made by many more referenda, some result-oriented conservatives are enthusiastic advocates of that form of decision-making.

This advocacy is an affront to the conservative tradition of concern for sound procedures. It is shortsighted and opportunistic: a negation of the essence of representative government. That essence is the principle of representation: "the people" dispose of power, they do not exercise it. The argument about Proposition 13 was primarily about the economic hardship of many low-income owners. But the argument was about the assertion that passing the proposition would be "chaos." This assertion seemed imply that existing levels of spending and patterns of taxation are merely acceptable, but somehow inevitable and indispensable.

This implication was peculiarly grating because it ascribed permanence to the works of legislation and to the works of legislation. And it suggested a paradox: G.K. Chesterton noted:

"One of the queer puzzles of modern politics may be said to be that when power is permanent, it is always remote; that it was passing; but when power was really supposed to be permanent, it was treated as if it were transient. In the days when they could really cut off anybody's head they were incessantly informed; seers and sages that they themselves would soon be cut off. When there were real despots who had power of life and death, there were those that death would be the end of their own life. But nobody (at this point) ... democratic liberal ideas ... prevail in state. Nobody told the really temporary ruler that he was temporary or even that he was mortal."

The power of popular government is permanent in the sense of the sovereign, "the people," is continuous. The political ideas of the United States insist the idea of government is "by the people."

Paradox

This, then, is a paradox of popular government: People are best seen when they are in a position to complain about government. If they can complain with minimum confusion and maximum acknowledgment when they acknowledge their dissent, that government is "by the people."

The California vote was an ample of psychologically satisfying insistence. Especially in a state, the size and complexity which mocks the sentimental democratic idiom, it is cathartic for us to say, sharply: We will brook the suggestion that we do with the power we elect cannot be undone.

Computer Coders Hide Data in Ciphers

Cryptography and the Electronics Age

By Malcolm W. Browne

NEW YORK, June 7 (NYT) — Paper and ink used to be the raw material for society's valuable symbols: money, contracts, state secrets or plans for new weapons. To safeguard those valuables, man has devised systems of secret writing soon after the dawn of recorded history.

Increasingly, however, the operating symbols of power and wealth are intangible flocks of electrons which travel through computers at almost the speed of light — and which cannot be locked up.

The shift from paper and ink to electrons, together with the proliferation of computers in government and business, has created an urgent need to protect computer data with secure cipher systems. So cryptography is today developing faster than at any time in history, and present-day codes are as reliable from the best ciphers of a decade ago as liquid-crystal watches are from their spring-wound predecessors.

Over the centuries, codes and ciphers increased in complexity

only very gradually. In the early 19th century, gifted amateur cryptographers like Edgar Allan Poe could easily hold their own with professionals in devising and deciphering ciphers.

Two world wars and the development of modern communications changed that for good. The advent of computers made the art of cryptography the nearly exclusive domain of professional mathematicians and computer experts. Because a computer can try out so many possible ciphers so rapidly that no human brain working alone, much less an amateur cryptographer, can match it.

Standard Challenged

To store computer data safely, the cipher used must be so complex that only another computer knowing the cipher can extract them. Early this year the United States promulgated the first national standard for codes.

In effect, the standard specifies how difficult a cipher must be to qualify as protection for computer data. Devices meeting the standard, officially called the Data Encryp-

tion Standard, or DES, must now be mated with all government computers handling nonsecret material. Banks and other big commercial computer users are following suit.

But already the DES has been challenged by private experts as potentially too easy. Even its champions concede that the cipher system provided by the standard will probably be obsolete by the early 1980s. Some critics charge that the standard was deliberately made too easy under orders from the National Security Agency, custodian of all official U.S. ciphers and eavesdropper on all ciphered foreign message traffic.

The agency, which professes to be the most secretive body in the government, has leaked the fact that it is not a bit happy to have so many university and commercial researchers in the cryptography business. Intelligence officials are worried about the virtually undecipherable coding schemes emerging from private institutions.

Helping the Enemy

The security agency contends that it needs to be able to eavesdrop on enemies, and if those enemies are provided with impenetrable codes devised in this country, security will be doubly damaged.

Last week it was disclosed that the government had forbidden the University of Wisconsin in Milwaukee to publish research it has done on computer data coding. Although the work was not classified secret, the government order said disclosure "might be detrimental to the national security."

In the old days, simple substitution was the basis of most ciphers: the alphabet arranged from A to Z was replaced by an alphabet in which the letters were arranged in a different order. But such ciphers are easy to decrypt, because each language uses its letters according to a regular frequency. For instance, the cipher letter turning up most often in an English-language message would probably be a substitute for E, the most common letter in English.

At the other extreme of difficulty is the one-time cipher, which cannot be understood by any outsider, regardless of the power of his intellect or of the computer he brings to bear on the problem. With the one-time cipher, the sender and the receiver of a message must both have identical copies of a random list of numbers. Each successive number on the list changes the substitution scheme for each successive letter in the message, so that no message shows any pattern that could be recognizable characteristic. As the list of numbers is used up, it is destroyed, never to be used again.

Gigantic Number

The spies and diplomats of the world use one-time ciphers for their most secret dealings. The Soviet Union, because of its special disposition to secrecy, uses the system much more than the United States. But the one-time cipher is too cumbersome to deal with the billions of words transmitted daily in diplomatic, military and official communications, since all parties to message exchanges must have in their possession lists of numbers as long as all the messages.

The next best thing is a system of substitution in which a pattern might be discerned by skilled, computer-aided cryptanalysts, but only after many billions of words have been transmitted. One method of substitution involves treating a message as a single number and applying an algebraic process to it.

For example, Tolstoy's "War and Peace" could be expressed as a gigantic number in which each letter is assigned a numerical counterpart. The book-length number could be called X, and from it a ciphered number Y could be computed by an algebraic equation of any desired degree of complexity. No pattern would be discernable in the result, since the substitution used for each letter depends on the total number.



RIGHT ON - The 34th anniversary of D-day Tuesday became Demo day for hundreds of British servicemen's wives who marched through London protesting the low pay and conditions of their husbands. They ended at the House of Commons where they lobbied members of Parliament.

Seoul to Free 8 Soldiers Caught on N. Korea Ship

By David A. Andelman

SEOUL, June 7 (NYT) — With the 28th anniversary of outbreak of the Korean war just a few weeks away, the South Korean government has taken the unusual decision to return eight North Korean soldiers captured inside its territorial waters off the eastern sea.

A Defense Ministry spokesman said today that the move was taken on humanitarian grounds. "They [the Communist soldiers] have families in the North and they have pledged not to repeat such offense," said Shin Chan.

Returning any captured prisoners is an unusual thing in Korea, which remains rigidly divided between the North and South. Although the armistice agreement of 1953 has practically ended the war, tension has always run high along 155 miles of fortified border.

Last in Fog

A South Korean announcement said that the boat, in which eight survivors were captured, was shelled and sunk May 19. The government earlier described it as an espionage boat used for infiltrating agents to the South. But the Defense Ministry spokesman said today that it had crossed the demarcation line because of dense fog.

South Korea's proposal was negotiated by U.S. Army Col. Kenneth Kleybas, a senior United Nations Command secretary at the time.

Small Gulf Fine Assailed in U.S.

WASHINGTON, June 7 (UPI) — The head of a House investigation subcommittee said that a \$400,000 fine that Gulf Oil Corp. received for participating in an international uranium cartel showed that crime pays.

Rep. John Moss, D-Calif., said that he was disappointed that the Justice Department only charged Gulf with a misdemeanor, which carries a maximum \$30,000 fine, instead of felony carrying a \$1-million maximum fine.

Judge Gerald Weber said that he reduced the fine to give Gulf a symbolic reward for spurring the government to the cost of a trial.

Underground Publications Now Barred

20 Writers Say Czechs End Tacit Pact

By David A. Andelman

PRAGUE, June 7 (NYT) — Twenty of Czechoslovakia's most distinguished writers, poets and dramatists warned today that the government has repudiated a tacit understanding that has long allowed the functioning of perhaps the most active underground publishing operation in Eastern Europe.

The writers, in a letter addressed to a number of fellow writers and playwrights in the West and released here today to Western correspondents, said that the understanding allowed the production in Samizdat form of legitimate literature without political overtones.

The repudiation, the letter alleges, took place last week when the novelist and poet, Jiri Grusa, was arrested and charged with "incitement" by publication of his novel, "The Questionnaire," by the

underground "Petlice" or Padlock Press.

This novel will also be published this fall in Lucerne by the Reich publishing company and by the large French publishing house of Gallimard in Paris.

By the arrest, the letter continues, "the authorities thus overstepped not only the law, but the thus far quietly respected dividing line between civil and political activities such as a number of writers have been involved in and literary activities such as people like Grusa are engaged in."

But these authors and others are concerned that this latest arrest and a number of other interrogations that have accompanied it over the last several weeks may signal a new level of activity aimed directly at such purely literary activities and designed to dismantle the Padlock press operation, which hitherto has been allowed to continue with only minor harassment.

4 Russians Doomed For Helping Nazis

MOSCOW, June 7 (AP) — A court in the southern Russian city of Rostov-on-Don has sentenced four men to death for collaborating with the Nazis during World War II, the trade union newspaper Trud reported today.

The report said that three other men were sentenced to 15 years' imprisonment and one to 13 years for helping the Germans in their operations against the Soviet underground movement during the war.

Rights Violations

Most of the principal Czech authors known in the West — including Ludvik Vaculik, Pavel Kohout, Vaclav Havel and Ivan Klima — signed the letter. Many have also been involved in anti-government political activity, particularly the Charter 77 movement that publicized Czech violations of human rights. Such activity has resulted in arrests and a range of police intimidations.

Kissinger Urges No Korea Talks Without South

TOKYO, June 7 (UPI) — Former Secretary of State Henry Kissinger said yesterday that the United States should never negotiate with North Korea unless South Korea participates.

In an interview in the newspaper Asahi, Mr. Kissinger also said that he opposed the Carter administration's withdrawal of U.S. ground troops from South Korea and said that the United States blundered in the 1973 Paris peace talks by giving North Vietnam an excessively important role.

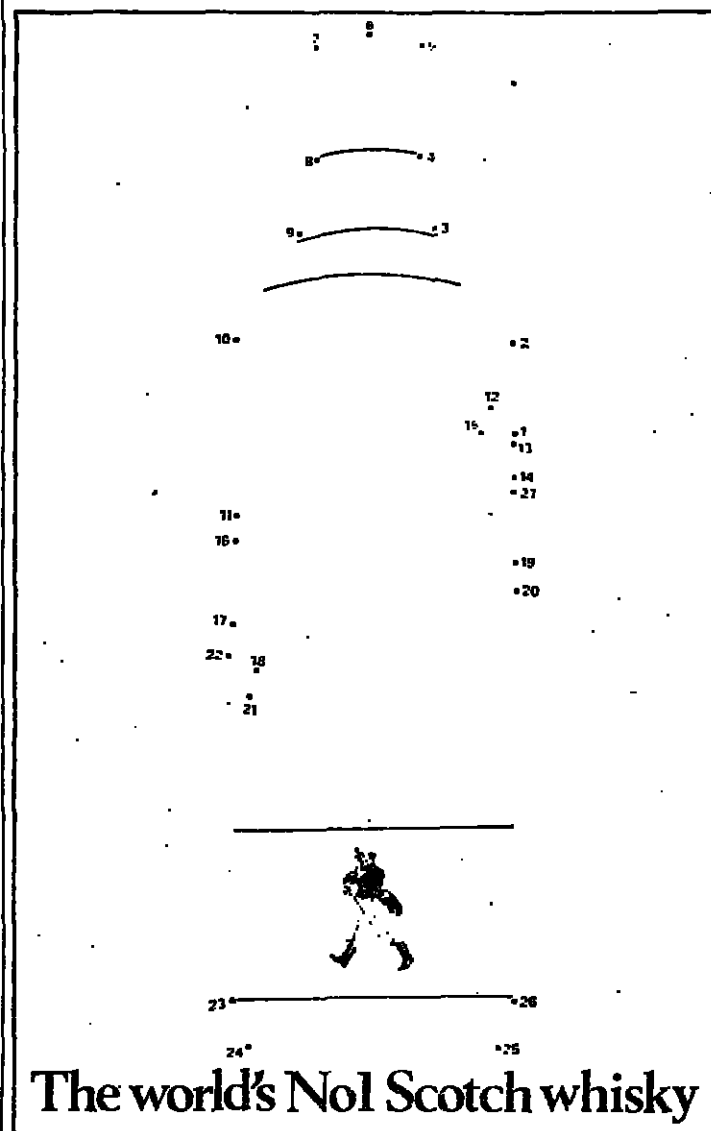
"As regards North Korea's refusal to talk to South Korea, its aim is to undermine the legitimacy of South Korea," Mr. Kissinger said. "It is nothing but a trick for making North Korea rank as the representative of all Korea."

"At the Paris peace talks, North Vietnam used exactly the same method. At that time, the United States made the policy blunder of giving North Vietnam an excessively important role. Whatever happens, we must not make that error again," he said.

Van Gogh's 'Poppies' Is Stolen Near Cairo

CAIRO, June 7 (AP) — A Van Gogh painting valued at \$500,000 has been stolen from a museum in a Cairo suburb and some supervisory personnel have been detained for failing to provide adequate security, police reported.

Culture Minister Abdel Moneim Sawy identified the work as "Poppies," painted in Paris in 1887. It shows vivid yellow and orange poppies in a dark vase.



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Egypt Asks U.S. to Send Armored Troop Carriers

WASHINGTON, June 7 (AP) —

U.S. officials say Egypt is seeking about 800 U.S. armored troop carriers to replace worn-out equipment supplied by the Russians years ago.

The request was expected to be a centerpiece of discussions between Egyptian War Minister Mohammed Abdel-Ghany Ghamasy and congressional and senior officials of the Pentagon, State Department and White House over the next three days.

Gen. Ghamasy, the first Egyptian minister to visit the United States, arrived here late yesterday to start a 10-day tour. It will take him to major Army and Air Force installations and to the plant of Ford Motor Corp., where Egypt's 50 SE fighter planes will be built.

Gen. Ghamasy's visit is less than a month after the Senate upheld President Carter's controversial proposal to sell jets to Egypt and Saudi Arabia as well as Israel.

Proposal Not New

The Egyptian proposal to buy about 800 tracked armored personnel carriers had been under study before the sales deal reached its final vote in the Senate. But it was not publicly acknowledged by administration officials, apparently out of concern that it might deepen opposition in Congress to the plan.

Gen. Ghamasy's arrival yesterday coincided with Egyptian President Anwar Sadat's public reminder to Israel that his country is ready to

Long-Term Needs

U.S. officials said Egypt is concerned about a reliable supply of weapons to take care of its long-term needs.

While the Carter administration stressed the defensive nature of the fighter planes it is selling to Egypt, Saudi Arabia and Israel, it appeared it might be a more difficult task for the administration to picture armored personnel carriers as defensive.

The personnel carriers, which are used to haul foot soldiers into battle zones, are considered key items of equipment in the kind of fast-moving warfare that has characterized past Arab-Israeli wars.

U.S. Absent in Geneva As ILO Session Begins

GENEVA, June 7 (UPI) — The International Labor Organization began its annual conference today without the direct participation of the United States for the first time since ILO history.

Mexican Labor Minister Pedro Medina Paulada was elected president of the annual session and in his opening address he appealed to the United States to reconsider its refusal to join the organization.

The United States withdrew from the ILO last year on the ground that the UN agency is used by Communist and Third World states to attack the Western democracies while blocking discussion of their own shortcomings.

This year's conference was the first since the ILO was founded in 1919 without the participation of

Inventor Snubs

Judge's Offer

Of \$1.1 Million

LOS ANGELES, June 7 (UPI) —

Superior Court Judge gave Albert Bodine two choices: Accept \$1.1 million in damages from a Connecticut firm or be a third trial. Judge Bodine refused the money.

Mr. Bodine, who invented a so-called antisubmarine warfare device that he alleged was stolen by United Aircraft Corp., was granted \$3.5 million in damages by a jury in the first trial, but a Superior Court judge ruled that judgment excessive.

In a second trial ending last September, a jury awarded Mr. Bodine \$1.1 million. Superior Court Judge William Loomis ruled that the evidence presented to the second jury is not sufficient to justify the \$1.1 million, so he offered Mr. Bodine \$1 million.

Although the matter has been in litigation 15 years, Mr. Bodine said that offer wasn't enough.

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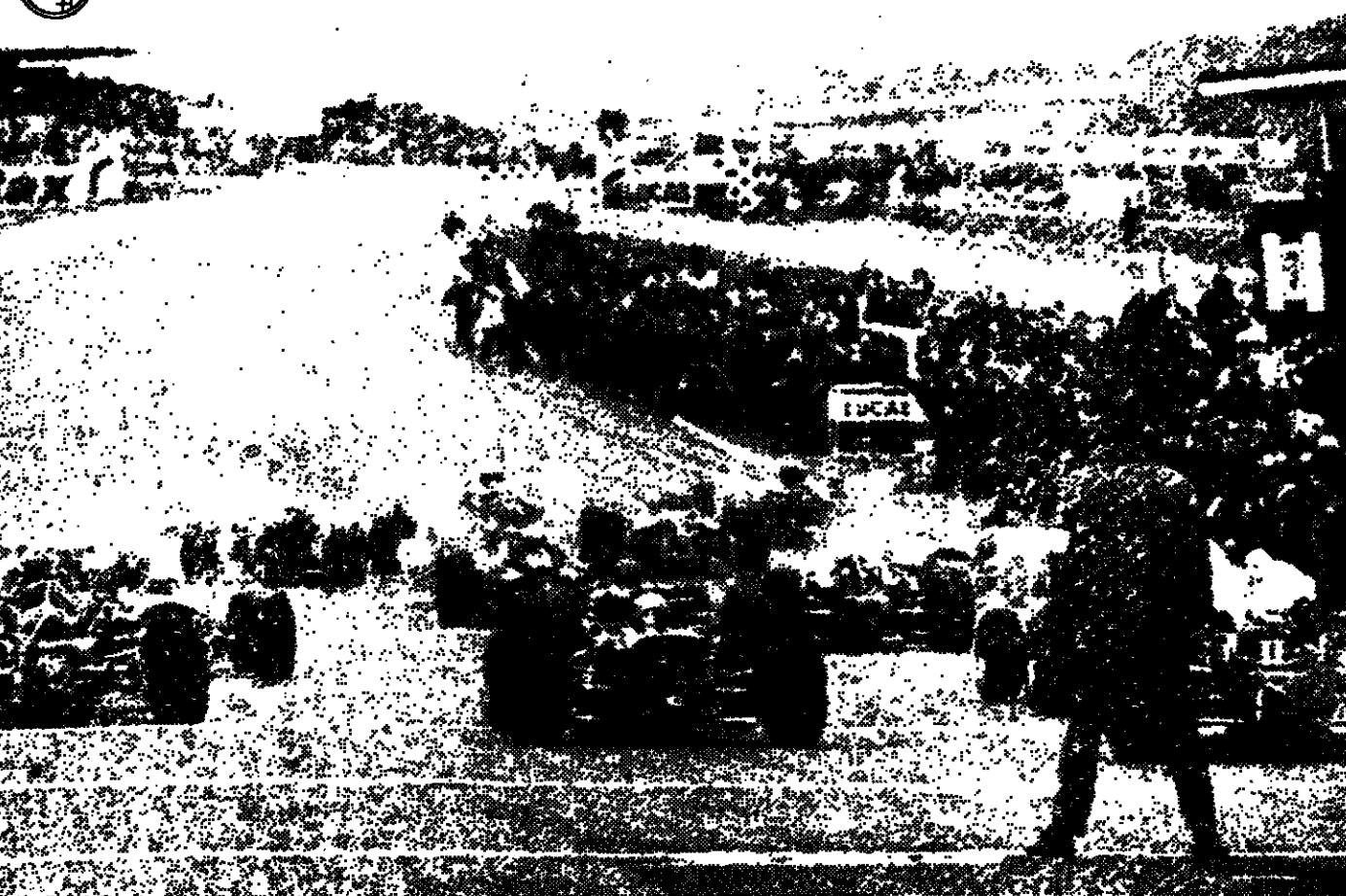
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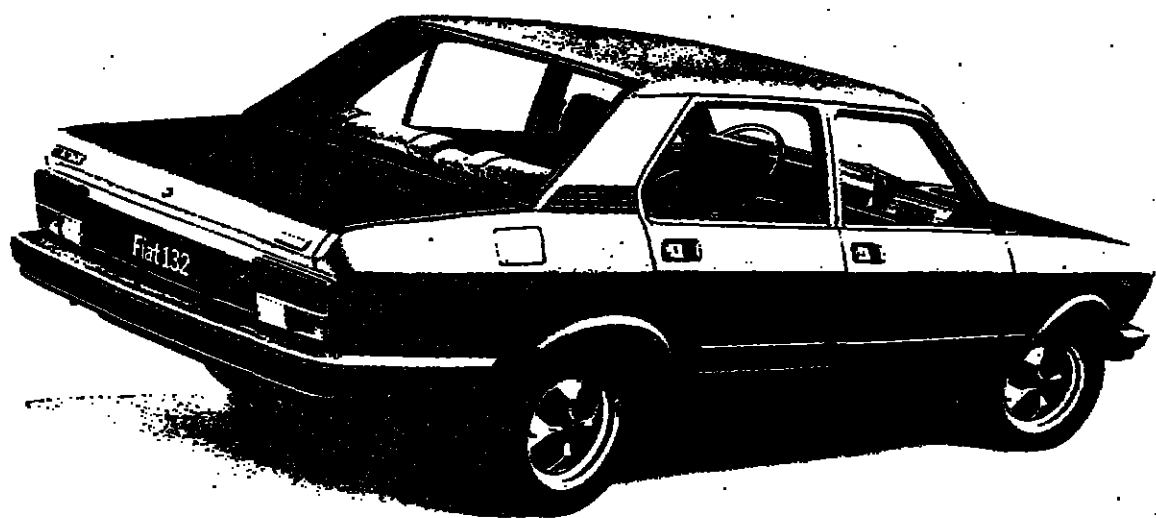
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Objective: Flights of Fancy

French Children Meet Japanese Master Kitemaker

By Jane M. Friedman

PARIS, June 7 (IHT) — Hundreds of French youngsters have turned their fancies to kites — they are making them and flying them under the instruction of a mysterious-looking kitemaker from Japan. Both the kitemaker and the craft have swept the children off their feet.

The kitemaker is 46-year-old Mitsuo Okatake, a book designer from Osaka who discovered the joy of kites five years ago. Mr. Okatake, who paints traditional Japanese puppets on his five-sided kites, was brought to France under the auspices of a kite-flying festival to be held on June 25 in the Bois de Vincennes (on the southeastern edge of Paris), an event sponsored by the International Herald Tribune and Japan Air Lines. The Pompidou Art Center at Beaubourg hired him for two weeks to teach French schoolchildren how to make and fly kites. The classes started May 31 and end Saturday.

In all, 24 classes of French children will make traditional Japanese kites at the center's Atelier des Enfants under Mr. Okatake's instruction. Saturday, Beaubourg will hold a "wind festival" on the plaza in front of the art center where Mr. Okatake will demonstrate his own kites and the children will fly theirs.

"This was super," said 9-year-old Marc Mercier after a recent session with Mr. Okatake at which the children assembled four-sided kites from rice paper, bamboo sticks and special glue all brought from Japan. "At least we have something we can take home with us," said Sandrine Delpeire, who was jealous at first of other 9-year-olds next door exercising on bars. When the children began to realize that the kites would actually fly, they became enthralled.

Color Scheme

"I'm going to color mine red, blue and yellow," said Sandrine, "but I have to attach a string first so that it doesn't fly away." Stephanie Gazonou, her friend, said that she would add purple to the color combination.



Mitsuo Okatake supervises young French kitemakers at Centre Beaubourg's Atelier des Enfants.

Although Mr. Okatake speaks no French, he manages a warm nonverbal communication with the children. "I understand children easier than I understand adults," he said later through an interpreter.

Mr. Okatake, who was born in Osaka, is one of about 15 recognized kite artists in Japan. At age 25, after working in a government office, a local factory and at a newspaper, he began to take drawing and painting lessons. Later, he drew for children's books. Five years ago, after drawing kite themes for a book, he became fascinated by Japanese kite designs.

Kites have been popular in Japan since the 7th century, when they were apparently introduced by visiting Chinese. Traditionally, kites were used in religious rituals, harvest festivals and even in war. Today's kites, which often bear pictures of theater figures and are

flown in mock kite wars, were developed in the 19th century. According to Mr. Okatake, 2,000 Japanese are employed in making kites today.

Mr. Okatake's kites, which are five-sided and wider on the bottom than on top, bear painted portraits of puppets from Osaka's Bundaku theater, which was created in the 17th century. In the Bundaku theater there are about 10 white-faced puppets with elaborate head dressings, small heads and wide bodies. The plots often involve a guileless girl, an evil man and an honest man. Double suicides in tragic love affairs are frequent.

Emblem of Osaka

"Many kitemakers paint the Kabuki theater of Tokyo," said Mr. Okatake after a kite lesson last week. "I wanted to do something else." A proud resident of Osaka,

Mr. Okatake's Bundaku kites are bolstered in back by bamboo sticks which form the emblem of his city. Mr. Okatake says he loves kites because they are "natural and ecological" and they make him feel young. He makes about 300 kites a year and sells them to collectors.

The Beaubourg Atelier des Enfants has attempted to recreate Mr. Okatake's Osaka studio with low wooden working table. A sample of his vibrant kites is strung on a wall behind him. Some of the children's work is also exhibited in the atelier.

On his first visit to France, Mr. Okatake has become enamored of French children. "They're so well behaved," he said last week. "On even kissed me on the cheek after lesson." Of the children's enthusiasm for kites, Mr. Okatake concluded, "Children are the same all over the world."

Fashion in New York

Europeans Cutting Into U.S. Ready-to-Wear Market

By Hebe Dorsey

NEW YORK (IHT) — European ready-to-wear designers are finally making it in the United States.

For a long time, with the exception of Henri Bendel, the picture was not as good as it should have been. American store presidents and buyers went to Europe regularly and stirred a lot of wind without hardly any results back home. With Seventh Avenue in tight control of the fashion industry, those trips were primarily for prestige and window dressing. They also helped the Americans keep up with the new fashions, and, occasionally, to do a little copying on the side at cheaper prices, such as Hong Kong.

But back in New York, you often saw very little and very badly displayed European merchandise. Part of the reason for the Europeans' mediocre showing was their own fault. Relatively new on the ready-to-wear scene, Europeans did not have a clue about how to do business. American style. They had to catch up with store delivery and re-orders, all of which they seem to have done now.

As a result, U.S. stores now buy in depth and spend considerable time and money on promoting European styles. The difference is particularly striking at Bergdorf-Goodman, whose president, Ira Neimark, has tried hard for the last three years that he has been there to give European designers star status and exposure.

Boutique Space

"We are giving 10,000 square feet to European designers," Mr. Neimark said, adding that they have turned the whole second floor of the store into separate boutiques most of them European. "To qualify, they have to have a whole line, including couture, ready-to-wear, sportswear and accessories, so it's a complete shop."

All boutiques have been designed to look like their European counterparts. Chanel, for instance, has a lot of black lacquer. Besides Chanel, the second floor that was opened April 15 also houses Saint Laurent, Givenchy and Mila Schon.

Most of the Italians, who got a wonderful break at Bergdorf's, are on the third floor. "As a concentrated group, we've done a lot for the Italians," Mr. Neimark said. "The most of U.S. stores."

As of now, the store has captured Krizia, Armani, Basile, Odicini and Fendi. Other well-known Italian names are in accessories, such as Trussardi (bags), Mario Valentino (shoes and leather clothes) and Ripa (furs).

"Italian clothes are more sporty than French ones," fashion director Dawn Mello said. "That's why American women relate to them. Also, despite the fact that European merchandise is 25 percent higher, because of duty, they are still, in many cases, as good as money in the bank. Mila Schon's clothes, for instance, walk right out."

All told, Bergdorf-Goodman has invested 30 percent of its purchasing to European fashions, which, "As a percentage of total is very high," Mr. Neimark said. "It runs into millions of dollars."

Same story at Bloomingdale's, where senior vice president Murray Friedman said that the European fashions, which represented 1 percent of the action 10 years ago now amount to 15 percent.

"The tide started turning 10 years ago," Mr. Friedman said, "with the first Yves Saint Laurent boutique. Missions also opened at the same time. Now, the store has about 30 prominent European designers, including 10 Italian, 18 French and, in England, Zandra Rhodes."

"Europeans give us a quality product and a sense of excitement in new fashions," Mr. Friedman added. "I think the Bergdorf brings more excitement. It has to do with Paris, which is more stimulating, more competitive. Milan is fashionable, chic, subtle. The Italians make the clothes better and their proximity to fabrics is an added advantage."

Mr. Friedman also confirmed that Europeans have learned the American market. "They understand early deliveries because they, too, now go to sun places. Even the European boutiques have changed their sales habits."

As is Bergdorf, Bloomingdale's is leaning heavily on presentation, and, "We're building a new set of

boutiques. But we believe in no separating European from American designers."

International Customers

"I think the clothes are international, and to some extent, so is the customer," Mr. Friedman said. "I think there is a change in a customer's attitude. Now she is less loyal to this or that designer and shop all over."

"The Europeans have also learned to keep the flow of merchandise coming by opening their own shops. Courreges, alone, has 28 boutiques in the United States. They're learning the American way of doing business. It will be interesting to see how many survive."

But although the picture for Europeans is far better than it used to be, there are still a lot of problems. For instance, many designers, such as Claude Montana, Jean-Claude de Luca and Basile, did not get the space and exposure they deserve at Bloomingdale's. Late deliveries, a store spokesman said. As if Kenzo, who now has a boutique in the store, his current collection will, marked down, because, Mr. Friedman said, "Americans understand, but it's tough selling because of the prices. Too high for the avant-garde and young styles."

From Late 19th and Early 20th Centuries

A Quick Course in Morals and Manners

By Lee Lescaze

NEW YORK (WP) — A lover should not hold his bride by the ears. Clergymen should not be fed on the choicest delicacies lest their other "appetite" be inflamed. A four-leaf clover slipped into a man's shoe will make him forever adore the woman who placed it there.

If you didn't know these simple rules pertaining to sex, manners and morals, it is because you haven't learned from the past — but there is still time to take a quick course.

A woman can learn the almost forgotten secret of Hesse and Oldenburgh, where many a man's heart was captured by a girl who cleverly cut her finger and allowed a few drops of blood to mingle with his glass of beer. (In Bohemia, bat's

blood could be used by any who flinched from pain — and had a supply of bats.)

Men can still be saved from the tragedy of marrying a woman with a forehead shaped like their own. And parents can be reminded that it is dangerous to whip children lest they come to like it.

This lore is contained in "This Was Sex," a collection by Sandy Teller of advice available in the late 19th and early 20th centuries on subjects now the province of advisers from Playboy and Penthouse magazines. The advice comes from an era in which there was more action in movie houses than on their screens, but it shares one bias with much of today's advice — it is written, in the main, for men.

Arch Villain

The playboy, however, is the arch villain of whom all good company must beware. "Compared with his crime, murder is innocuous. Even hanging forever would be too good for him," the author of "Sexual Science" states of the Seducer.

But just when everything seems clear, the author of "Sexual Ethics: A Study of Borderland Questions" counsels men that it is not always easy to tell whether a woman's resistance is feigned or real.

Whether the use of a certain degree of violence will arouse the most ardent passion of love or the most furious anger... whether he will find himself in paradise or in the penitentiary... is a question on which the reader receives no clear instruction.

Other subjects were easier for our ancestors' advisers. "To lose weight, women are told to have lots of children... don't quit wine and sleep sparingly."

In this corsetless age it is a relief to read that we are free of our damnable habit. Tight-lacing, those other destructive hyphenated habits: tobacco-chewing, liquor-drinking and pork-eating.

Unlaced Women

One adviser hazarded the thought that it was because of their tight corseted waists that women screamed when they saw a mouse. Although his research data was weak, it is true that today's unlaced women don't do much screaming mice.

Miss Teller has chosen from wide variety of sources. You can learn everything from why women aren't good at clapping their hands to the dangers of having sex soon after eating.

There is even a motto for you men: "The mind away from sex thoughts and the hands away from the penis."

Record Price Paid For U.S. Painting

LOS ANGELES, June 7 (AP) — A record auction price for American painting was set yesterday when a 19th-century masterpiece by George Caleb Bingham was sold at a Sotheby Park Bazaar here for \$980,000, a spot woman said.

The price for the painting, "Jolly Flatboatmen," was triple previous record, she said. It sold to Stuart Field of Hirsch Art Galleries in New York.

Bonn Readies Plan for Summit

By Paul Lewis

BONN, June 7 (NYT)—Authoritative government sources report that West Germany is ready to accept a package deal at the Western nations' economic summit meeting here next month under which it would agree to promote faster economic growth at home if other countries announced protectionism and President Carter promised to curb U.S. oil imports.

The West German policy is being coordinated by Chancellor Helmut Schmidt, who is anxious to make the July 15 meeting a personal political success, according to sources here. As a result, West Germany's final position is unlikely to become known in detail before the meeting.

But according to the sources, Chancellor Schmidt may seek a firm promise from President Carter

Trades Stimulus For U.S. Pledge

to impose an import tax on foreign oil and take other steps within his power to conserve energy if Congress still has not passed an energy conservation act by an agreed date. Agreement on such a package of economic reforms, the West German government believes, will insure the success of the Bonn meeting, help restore faster economic growth in the West next year and satisfy the mounting international pressure on West Germany to stimulate its economy.

Sluggish Growth Seen

The readiness to make such a deal, the sources say, reflects Bonn's expectation that the econ-

omy will again perform more sluggishly than hoped this year, coupled with increasing concern at the spread of protectionism and a desire to end the long-simmering quarrel with its principal allies over economic policy. Nevertheless, government sources concerned with the meeting's preparation continue to caution that the West German economy is unlikely to respond rapidly to any stimulative measures agreed to at the Bonn meeting while world demand for German exports is weak.

As a result, they say that West Germany will not be tied to specific growth targets, and they warn that the package could still come apart if West Germany does not get the commitments it wants. The size, shape and timing of the additional stimulus that Bonn may agree to remains uncertain, but its willingness to make what one minister called "material contribution to the summit's success" is being acknowledged fairly openly by officials.

Only last week, for instance, Bundesbank president Oskar Emminger told a conference in Munich that the country was ready to "cooperate in order to narrow its economic growth differential with the United States." Although the government is officially committed to a 3.5-percent growth rate this year, no one now seriously believes that this can be achieved. The nation's five independent economic forecasting institutions all believe growth will be below 3 percent.

The summit package may also include an undertaking by members of the Common Market to seek greater stability among their currencies to encourage trade and investment. But West German sources do not believe the governments will be ready to give ironclad commitments.

Delays Budget Plan

BONN, June 7 (AP-DJ)—The cabinet decided today to delay a decision on its 1979 budget proposal until July 26, Finance Minister Hans Matthöfer said. He said the delay would allow the government time to review discussions at the July summit, to analyze first-half economic results and to collect data for a new tax-revenue analysis.

Soybean Price Seen Up Over 15 Months

CHICAGO, June 6 (AP-DJ)—Soybean prices are likely to be higher during most of the coming 15 months unless the U.S. crop this autumn is unexpectedly far larger than last year's record 1.72 billion bushels, market analysts say.

Typically, soybean prices weaken in the months before a big new crop comes in. But, currently, demand is booming and supply prospects are uncertain, analysts report. The effects will be widely felt, for the vegetable oil, meal, flour and other products made from soybeans are an important feeding or processing ingredient in roughly 75 percent of the most popular U.S. foodstuffs.

"Fear will play a big role in soybean and soybean-product markets," predicts one industry executive. "We were expecting big surpluses until recently. Now it looks like we might be down to a four- or six-week supply by next September when the harvest begins. Even a hint of big trouble this growing season could trigger volatile and perhaps record high prices."

Higher prices are not certain, however. A roughly parallel situation this time last year was followed by a sharp drop in demand just before harvest. However, soybean prices currently are more than \$2 a bushel lower than a year ago, "and demand seems more apt to extend clean through September," says George Kromer, an Agriculture Department economist.

Analysts at R.G. Dickinson & Co., a Midwestern brokerage firm, put the case even more bluntly: "In 1973, \$12-a-bushel soybeans, \$400-a-ton soybean meal, a \$5 spread between the prices of old- and new-crop soybeans and an embargo on exports were all necessary to enforce a cutoff in May through August usage. Last year, it took \$10 beans, \$300 meal, cheap corn, a \$3 price spread between the old and new crops and a major increase in soybeans from Brazil to force the reduction."

The Agriculture Department has been raising its consumption estimates monthly since January, but some in the trade say even the latest estimate—that 1.65 billion bushels will be used in the year ending Sept. 1—is too low. U.S. supplies lately have been dwindling by 90 million bushels or more weekly, or about one million too many to coincide with the department's projections. Processors have

crushed about 10 percent more soybeans than last year since harvest, but their soybean meal and oil inventories currently are respectively about 33 and 44 percent lower than a year ago. Exports are running about 13 percent greater than last year as well, because the U.S. crop is filling a void left by poor harvests in Brazil and other countries, analysts say.

Paul Cisneros, research director at Weinberg Brothers & Co., a Chicago brokerage house, estimates 1.7 billion bushels or more will be drawn from U.S. stocks this marketing year and probably an equal number in the next, up almost 19 percent from 1.43 billion bushels last year.

Most of the 1979 soybeans will have to come from this autumn's harvest, however, and there is some confusion about how big that might be. The Agriculture Department in April estimated farmers are planting 63.7 million acres of soybeans this spring, 8 percent more than last year. Some market watchers contend that because wet weather fouled up many corn-planting plans, farmers will actually plant nearer 65 million acres.

Others assert plantings are slipping to about 61 million acres as a side effect of unexpectedly popular government efforts to cut surplus wheat and feed-grain production.

FINANCIAL NEWS AND NOTES**FTC Hits SKF, Federal-Mogul Pact**

A Federal Trade Commission (FTC) official has ruled that a supply agreement between Federal-Mogul Corp. and SKF Industries "was a conspiratorial scheme to allocate markets" in violation of the antitrust laws but found that SKF's acquisition of two competing ball-bearing companies was not illegal. Under the agreement, SKF became Federal-Mogul's supplier of bearings for the automotive parts market, and Federal-Mogul stopped plans for manufacturing the bearings while SKF stopped distributing them. The presiding judge ordered cancellation of the 1974 agreement one year after a final order in the case to "rid the bearings industry of the effects of this illegal conspiracy." A final order may be a long time off, however, because the decision will be appealed to the commission, whose decision may then be appealed to the federal courts. The judge also barred SKF and its Swedish parent company, the world's largest bearing manufacturer, from supplying certain types of tapered roller bearings to Federal-Mogul.

U.K. Car Sales Rise 6.4% in May

U.K. auto sales rose 6.4 percent in May to 131,331 from a year earlier—the sixth consecutive month that sales were above year-earlier levels, the Society of Motor Manufacturers and Traders reports. For the first five months, new car registrations have risen 22.4 percent to 736,329. Industry analysts forecast 1978 sales of 1.6 million cars, making it the best year since 1973. Imports last month increased their share of the market to 48.2 from 42 percent while sales of Japanese cars continued to rise despite official "administrative guidance" aimed at curbing Japan's

U.K. sales. Japanese car sales in May rose 4 percent to 13,647 units and in the first five months surged 31.6 percent to 83,343 units, giving them a 11.3-percent market share compared with 9.1 percent a year earlier. Ford of Britain was the top seller for both May and the first five months, followed by British Leyland, Vauxhall Motors and Chrysler U.K.

Xerox Partial Winner in SCM Suit

A federal jury has returned a partial verdict in SCM's suit alleging Xerox illegally monopolized the plain-paper copier market. On the first four crucial questions concerning markets, the jury rejected SCM's claims there was a market Xerox could have monopolized in plain- and coded-paper copiers in 1964. This means that SCM will not be able to collect the \$1.5 billion in trebled damages it had sought. Some damages still are possible, however, as the jury found in favor of SCM's contention that relevant markets existed for convenience office copiers in 1969. The jury still has 71 questions remaining to be decided.

Nissan to Assemble Autos in Nigeria

Nissan, of Japan, will build Nigeria's third and largest automobile assembly plant in Ikorin, 150 miles northeast of Lagos. Local press reports quote the federal minister of industries, R.A. Adeleke, as saying the plant initially will produce 100,000 Datsuns a year and will be the company's biggest outside Japan. Nigeria's two assembly plants are in partnership with Peugeot and Volkswagen, which together produce about 8,000 autos a year. Peugeot, meanwhile, has signed an agreement to build its model 504 in Taiwan. Industry sources say production is expected to total about 2,500 units a year.

Seen Impacting Common Carriers**House Unit Rewrites Broadcast Rules**

WASHINGTON, June 7 (AP-DJ)

—A House communications subcommittee released today its long-awaited rewrite of the 1934 Communications Act—the basic charter governing broadcasting—and called for an overhaul of federal communications laws that would have a profound impact on American telephone and telegraph and other common carriers.

The legislation, which still must be approved by both houses of Congress, would bar telephone companies from the manufacture of telephone equipment—a move that would force AT&T to get rid of its Western Electric manufacturing arm and similarly force General

Telephone & Electronics to shed either its telephone or equipment operations, subcommittee staff members explained.

The legislation would create a new communications regulatory commission as a greatly streamlined replacement for the present Federal Communications Commission. The new commission among other things would be directed to decide the extent to which one telephone service should subsidize another. Such cross-subsidy decisions, which determine the rates of different telephone services, mostly have been left to negotiations between AT&T's Bell System and state utilities commissions.

New Opportunities

At the same time, the proposal would offer AT&T and other carriers opportunities to compete in markets now closed to them. By sweeping aside existing government and court restrictions, for example, the bill would enable phone companies to offer customers computer services. It also would allow them to offer cable television over their systems. Competition with cable-TV companies is now barred by FCC regulations. Overall, the proposed bill seeks the freer play of market forces and a smaller role for federal regulators. It would junk most of the regulations adopted by the FCC.

The bill would almost entirely deregulate radio with AM and FM stations granted total freedom on programming and indefinite licenses for their owners. The license periods for TV stations would be extended to five years from the

present three with the prospect of indefinite licenses after the second renewal. However, the bill would limit the owners of broadcast properties to a maximum of five radio and five TV stations compared with the seven AM radio, seven FM radio and seven TV stations currently allowed.

Big Board Prices Lower

NEW YORK, June 7 (Reuters)—Prices on the New York Stock Exchange closed lower today in what analysts termed an expected correction after the gains of the prior six sessions.

However, the California tax-roll-back vote proved beneficial to a number of housing and savings and loan issues, they said.

Stock prices "just went up too fast and had to come down," an analyst remarked, adding that the market "was holding the gains rather well" in light of the pace of the increase.

Another analyst said that the amount of uncommitted cash still in the hands of portfolio managers made it likely that any market decline would be contained. Also contributing to the sentiment, he said, were comments by presidential inflation counselor Robert Strauss predicting June inflation statistics would show improvement from recent levels.

The Dow Jones industrial average fell 4.59 to 861.92 after climbing nearly 35 points in the six previous sessions. Declining issues slightly led advances by an 8-to-7 margin.

U.S. Capital Outlays Seen Up 6% in '78

WASHINGTON, June 7 (AP-DJ)—U.S. businessmen plan to increase spending for plant and equipment a little less than 6 percent this year from last year's level, after adjustment for inflation, the Commerce Department said today. The increase in spending plans is slightly above the real 5.5-percent increase expected for the year as reported in a similar survey by the department released in March. According to the latest survey, taken in April and May, business plans to spend \$151.1 billion, up slightly from the March survey's projection of \$150.7 billion and up 11.2 percent from the \$135.8 billion spent last year before adjustment for inflation.

Business spending rose 12.7 percent before inflation adjustment in 1977 from the previous year. The annual inflation rate used to adjust the figures in the latest report is 5.3 percent. Manufacturing industries expect an unadjusted 11.8-percent increase in spending this year compared with a 14.6-percent rise last year. Non-manufacturing industries look for a 10.7-percent increase this year compared with a rise of 11.2-percent last year.

Almost every major sector planned increases in spending, led by a 35.8-percent rise for air transportation. The only decline in spending plans, a drop of 4.4 percent, was in transportation industries other than air and rail. Railroad spending plans were up 19.3 percent, public utilities spending plans showed an increase of 12.1 percent and the communications industry, an increase of 13 percent.

The department said capital spending rose 4.4 percent in the first quarter of the year following a 1.6-percent decline the previous quarter.

Volume dropped to about 33 million shares from a hectic 51.97 million yesterday.

However, prices rose on the American Stock Exchange with the market-value index setting its third consecutive record high at 147.59, up 0.44 and the average price per share rising four cents.

Pet gained 1/4 to 54 1/4 in active trading after IC Industries said it will proceed with a tender offer for Pet shares at \$54 each unless Pet and Hardee's Food System shareholders approve their proposed merger. IC was unchanged at 26 but Hardee's lost 1/4 to 16 1/4.

Inspiration Consolidated surged 7 1/2 to 33 1/2 after the company said it will not oppose plans by Canada's Hudson Bay Mining and Resources Corp. to buy the remaining Inspiration shares they do not own at \$33 each.

Xerox added 1/4 to 54 1/4. Meanwhile, the Agriculture Department, in its first estimate for the 1978/79 world coffee crop, predicted production of 74.6 million 60-kilogram bags, up 9 percent, or six million bags, from the previous year's level and 14 million bags above the 1976/77 crop.

On a quarterly basis, plans call for a increase of 3.2 percent in the second period, 3.3 percent in the third and 2 percent in the final quarter.

Fed Decries Control Use

WASHINGTON, June 7 (IHT)—Federal Reserve Board chairman William Miller declared firmly that there is no place now or in the future for wage and price controls.

He told a National Press Club luncheon today that he has noted the unease of the business community about possible controls and said it is time to put the idea of controls to bed so the country can continue towards economic stability.

"They won't work. They're ineffective. And I'm disturbed by business people who think there's still a chance that some day they will be imposed," he said.

Mr. Miller said he has not asked the President for permission to invoke credit controls and he does not have any intention to do so. He said that while he would favor a cut in the capital gains tax after a period of economic discipline, he does not think this is the correct time to bring about a measure that would further add to the federal deficit.

There is no "quid pro quo" involving administration policies, he said. Reductions in interest rates could only be based on a lower inflation rate, he said in response to a question whether the Fed had agreed to ease monetary policy in return for cuts in spending or proposed tax cuts. He said that to the extent that the administration exercises greater fiscal restraint, the pressure on monetary policy will be eased, although he added that that does not necessarily mean easier money policies would follow fiscal restraint. "It can only be done against the realities of the economic conditions that exist in the time in which we make those decisions," he said.

Mr. Miller also outlined an eight-point economic strategy which he feels contains the disciplines necessary to restore economic stability to the United States.

They include: returning spending resources to the private sector; reducing the federal deficit with a balanced budget by 1982; increasing business fixed investment from 9 percent of gross national product to 12 percent over five to seven years; increasing housing starts by an annual 75,000-to-100,000 over the next five years; and increasing exports from 7 percent of GNP to 10 percent.

Also: preparing for additional individual income tax reductions; instituting more regulatory reform; and making a firm commitment to reduce inflation by a steady 1/2-to-3/4 percent a year.

Fukuda Sees Possibility Of New Stimulus in Japan

TOKYO, June 7 (Reuters)—Supplementary measures to accelerate Japan's economic recovery may become necessary within a few months, Prime Minister Takeo Fukuda acknowledged today.

Speaking to a meeting of the ruling Liberal Democratic Party, he said the nation's economy is showing signs of improvement as measured by recent economic indicators. However, he said that while he hoped the present upturn would be consolidated, it was possible this would not happen—making additional moves necessary.

Japan has targeted a 7-percent growth rate for the current fiscal year and, although widely doubted by economists as achievable, Mr. Fukuda has made it a pillar of his campaign to spur demand at home and induce imports to curtail the nation's trade surplus. During his visit to Washington last month, he stressed his intention to "take whatever measures necessary" to achieve the growth target.

Meanwhile, a survey by the Economic Planning Agency indicated that Japan's trade surplus this year may rise about 35 percent from the \$17.49-billion surplus recorded in 1977.

The government agency's survey of 38 leading trading houses showed that customs-clearance exports this year will total \$86 billion while imports will total \$69 billion, leaving a gap of \$15.1 billion. Based on the formula used by the International Monetary Fund to determine trade balances, the estimated trade gap will total about \$23-to-24 billion.

The government officially projects a trade surplus of \$13.5 billion and a current-account surplus of \$6 billion for the fiscal year ending March, but has made no predictions for the calendar year to compare with the EPA forecast. However, in April, Mr. Fukuda said that "even God" could not help Japan stick the target for reducing its current-account surplus.

The governor of the Bank of Japan, Teichiro Morinaga, today said Japan will do its best to cut its trade surplus, but urged the United

Net Falls 29.3%, Sales Rise For Hoffman-Roche

BASEL, June 6 (AP-DJ)—Net profit of the Hoffmann-La Roche group, including its holding company Sasec Corp., fell 29.3 percent in 1977 from a year earlier despite a 7.3-percent rise in world sales, the company said today.

The pharmaceuticals and chemicals multinational cited foreign-exchange losses for the decline in net to 335.9 million Swiss francs (about \$175 million) from 475.1 million francs a year earlier. Group sales rose to 5,487 billion francs from 5,115 billion francs.

Foreign-exchange losses last year amounted to 205 million francs, up sharply from 61 million francs in 1976. The board has proposed an unchanged dividend of 550 francs per share and per participation certificate.


Group sales expressed in Swiss francs have fallen about 10 percent in the first four months of this year from a year earlier, chairman Adolf Jaan said.

New Issues Set by Canon, Asics

TOKYO, June 7—Canon will issue 100 million Swiss francs in five-year convertible bonds with an annual interest rate of 3 1/2 percent priced at par, the company said today.

In Osaka, Asics Corp. said it will float a \$15-million convertible Eurobond next month. Although terms have not been set, sources said the issue is expected to be for 15 years with a coupon of 6.25 percent.

In London, Baker International intends to float a \$30-million, 15-year convertible Eurobond with a 5.5 percent annual coupon. The conversion price is expected to range between 12-to-15 percent above the price of the shares when the final terms are set on June 19. Formerly known as Baker Oil Tools, the company manufactures and sells a wide range of products in the oil industry.



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June 8, 1978

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NYSE Nationwide Trading Closing Prices June 7

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By reading across this table of yesterday's closing inter-bank foreign exchange rates, one can find the value of the major currencies in the national currencies of each of the following financial centers. These rates do not take into account bank service charges.

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Selected Over-the-Counter

NEW YORK (AP)— The following list is o	Closing Prices, June 7, 1978	Pettibon Piedmont Pioneer	26 27 11 1/2 11 1/4 11 1/4 11
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AMEX Nationwide Trading Closing Prices June 7[illegible][illegible]

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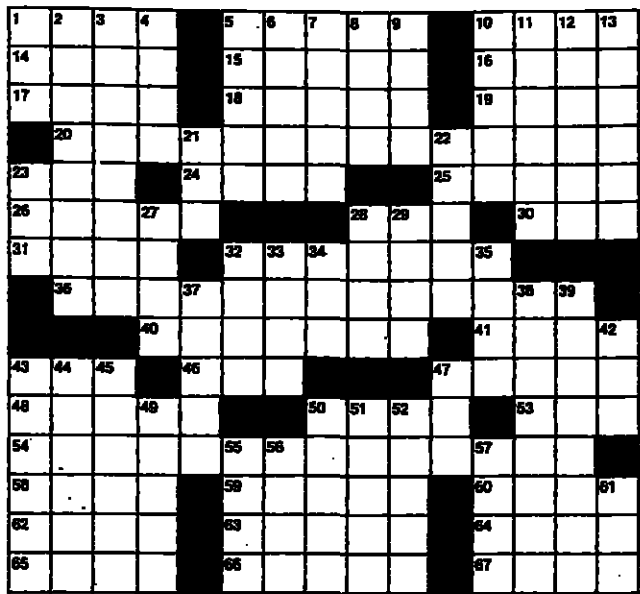
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- ACROSS**
- 1 One of the Three Bears
5 Weight of interest
10 Diamond Lil
14 Impediment to progress
15 Type of type
16 "Gloomy Dean" of St. Paul's
17 Vetch
18 Dr. Richards of tennis
19 Harem rooms
20 "Rigoletto" aria re womankind
22 Charisse
24 Lithuanian's relative
25 Composer of "The Rosemary"
26 Useful
28 Sometime member of the wedding
30 Suffix with exist and insist
31 City on the Arno
32 City official
36 A woman, to Pope
40 Little-known Moses
41 Tadpole's parent
43 Murray's "Caught in the Words"
46 Miss Dodo
- DOWN**
- 47 Where to see Lincoln
48 Kemper in Kansas City
50 Local
53 Egyptian symbol
54 Hamlet's "is woman!"
58 Letters from Greece
59 Of the bar
60 (aid)
62 Feminine suffix
63 Item passed at church
64 Handle, to Claudius
65 "So foul and fair a have not seen":
66 Betsy Ross, e.g.
67 Part of Rana's report
- PEANUTS**
- 12 "I've Got Kalamazoo," 1942 song
13 Take umbrage
14 Hurray, in Honduras
21 Start
22 "My rumeth over"
27 "Auld Syne"
28 Do prunings
29 Casco Indian
32 Buggy for a baby
33 Turner or Cantrell
34 Append
35 Plentiful
37 Event at court
38 Decoration
39 Bunk!
42 Kind of joint
43 Floated lightly aloft
44 Mistakes in a book
45 Kind of queen or sleep
47 Corral
48 Japanese citizen of U.S.
50 Trifle
51 "war":
52 Mary
53 Lights-out
54 Signal
56 Dec. 25
57 Jai
61 Hungry Horse, for one

WEATHER

ALBANY	C	F	Cloudy	MADRID	C	F	Overcast
AMSTERDAM	19	66	Overcast	MIAMI	22	72	Overcast
ANKARA	22	72	Clear	MILAN	21	70	Cloudy
ATHENS	22	72	Clear	MONTREAL	19	66	Cloudy
BEIRUT	-	N.A.	Clear	MOSCOW	22	72	Clear
BELGRADE	22	72	Clear	NEW YORK	22	72	Clear
BERLIN	22	72	Clear	NICE	22	72	Clear
BUDAPEST	22	72	Clear	OSLO	22	72	Clear
CASABLANCA	22	72	Clear	PARIS	22	72	Clear
COPENHAGEN	22	72	Clear	ROME	22	72	Clear
COSTA DEL SOL	22	72	Clear	SOFIA	22	72	Clear
DUBLIN	22	72	Clear	STOCKHOLM	22	72	Clear
EDINBURGH	22	72	Clear	TEHRAN	22	72	Clear
FLORENCE	22	72	Clear	TEL AVIV	22	72	Clear
FRANKFURT	22	72	Clear	VIENNA	22	72	Clear
GENEVA	22	72	Clear	WARSAW	22	72	Clear
HELSINKI	22	72	Clear	WASHINGTON	22	72	Clear
ISTANBUL	22	72	Clear	ZURICH	22	72	Clear
ISRAEL	22	72	Clear				
LOS ANGELES	22	72	Clear				

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(d) Boardman	\$F 768.30
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DIET INVESTMENT FRANKFURT	
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JARDINE FLEMING	
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LLOYDS INT. MGT. PO. S.A. (GENEVA)	
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PROPERTY GROWTH OVERSEAS	
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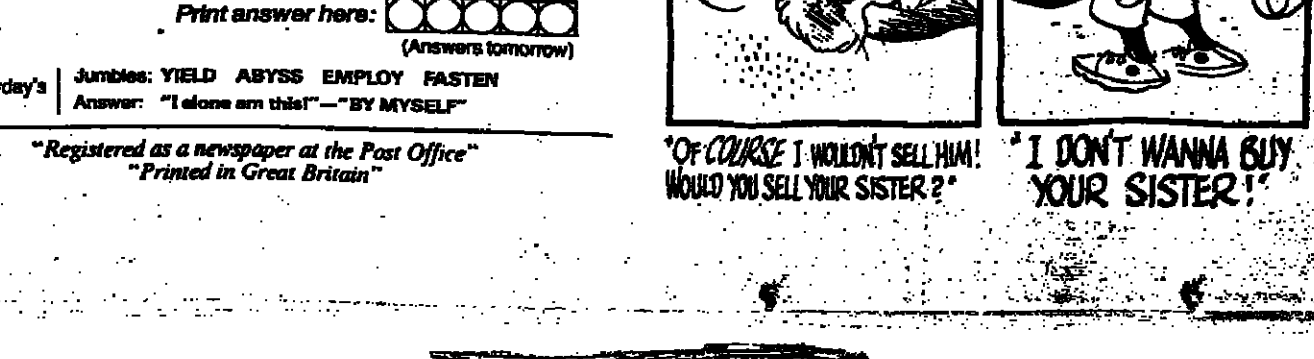
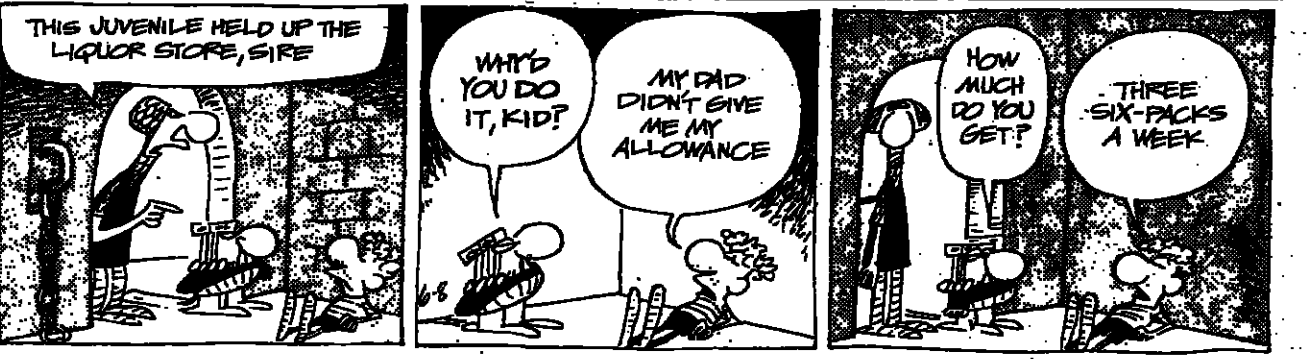
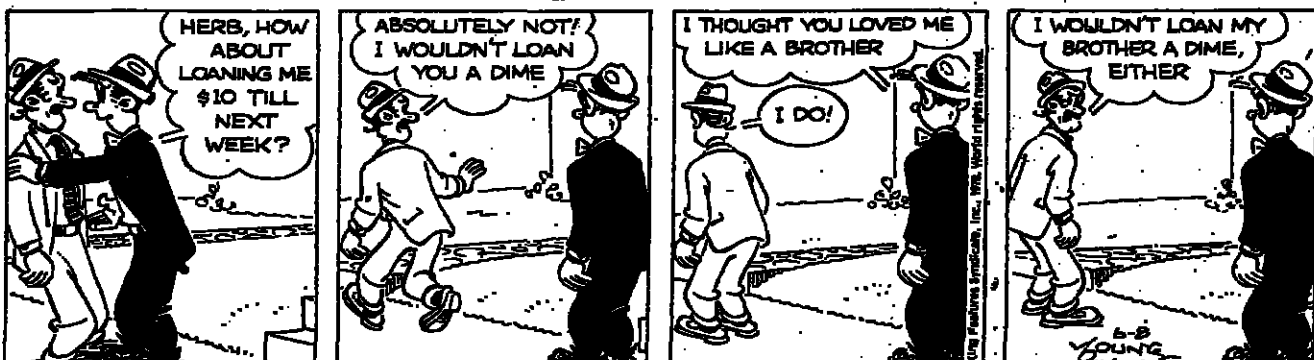
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BOOKS

THE OTHER HALF

A Self-Portrait

By Kenneth Clark. Harper & Row. Illustrated. 259 pages. \$12.95

Reviewed by Christopher Lehmann-Haupt

IN THE first volume of Lord Clark's autobiography, "Another Part of the Wood," we learned how, despite a singular lack of qualification for anything he ever undertook in his life, the author nevertheless became the highly successful director of the National Gallery and Keeper of the King's Pictures, and with his wife, Jane, succeeded at befriending most of England. In "The Other Half: A Self-Portrait," the incompetent bumbles on. He begins with the events that led to his receiving false credit for being "the man who saved the nation's pictures" during World War II by depositing them in the Manod caves in north Wales. "This claim is entirely unjustified. The man was F.I.G. Rawlins. He received inadequate thanks from me, and as far as I know, no official recognition, not even an OBE. That was partly because he was the most relentless bore I have ever known, and the kind of people who distort the honours: fled from his approach."

At the same time as he was saving England's pictures, he was appointed director of the film division of the wartime Ministry of Information, where he messed things up sufficiently to be advanced to Controller of Home Publicity. After the war, he resigned from the National Gallery ("Had I been a good director" - not very), and stumbled into the job of Slade Professor at Oxford, where he began to turn what little he knew about art into lectures and books. This new activity along with his somehow having managed to found the Independent Television Authority ("Like all pseudo-intellectuals I had at first been hostile to the idea of television," would eventually lead to his doing the television series "Civilisation," which got off to a poor beginning but culminated in making him famous - inexplicably and embarrassingly. ("I was brought up to believe that any work of art, music or literature that is enormously popular must have something seriously wrong with it. I see no reason why 'Civilisation' should be an exception to this rule.")

There is even some question as to whether Clark ought to have written this second volume. His memory is failing, he keeps protesting when he isn't describing in minute detail the people, places, and art objects he knew over a quarter-century ago. He could never recapture the sense of a past historical era that was the hallmark of the first volume. But after two years my son Alan talked me into changing my mind about writing "The Second Half." I recognized that some of the episodes in which I had been concerned as the principal actor were passing into history - a very minor branch of history, to be sure, but one which would appear in footnotes.

Considering its marginal value and the pervasive ineptitude of the man who wrote it there really any point to reading "The Other Half"? Just possibly, there is. A few readers may recognize and be interested in Clark's multitude of friends and associates: Winston Churchill, John Maynard Keynes, Andre Maurois, Myra Hess, Edith Sitwell.

Christopher Lehmann-Haupt is a book reviewer for The New York Times.

New U.S. Casino Reports Its Take

ATLANTIC CITY, N.J., June 7 (NYT) Resorts International reported that in the first six days of operating the nation's first legal gambling casino outside Nevada it made an average of \$438,504 daily. The report yesterday, based on figures provided to the State Casino Control Commission in Trenton, said that the casino took in \$2,631,028 from May 26 to the end of the month, which included the Memorial Day weekend. Of this more than half - \$1,455,219 or \$242,536 a day - was from slot machines, although the machines take up less than one-third of the gaming-floor space. The state limited the number of slot machines because they give the better a poorer chance of winning than do blackjack, craps, roulette, and wheels of fortune, the other forms of gambling at the casino.

BRIDGE

By Alan Truscott

A normal auction led to four hearts on the hand shown, and West led the spade eight. Dummy played low, and South captured the ten with the king. He played three rounds of diamonds, discarding a spade, and thought matters over. It appeared that East held spade length headed by A-J-10, so declarer judged correctly that the heart ace was on his left. If East had held that card, he would probably have over-called. So instead of playing a

NORTH (D)		EAST	
Q43	AJ1082	A82	A82
K52	Q	Q	Q
AQK5	Q	Q	Q
A109	AQ52	Q	Q
SOUTH		WEST	
K97	K97	A108	A108
J8763	J8763	Q	Q
Q	Q	Q	Q
A10	A10	Q	Q

Both sides were vulnerable. The bid: North: Pass. East: Pass. South: 10. West: Pass. Pass. Pass. Pass. West led the spade eight. On the face of it, South was due to lose three trump tricks and a club for down one. But when he led the king club and exited with his remaining club, West had to concede a trump trick at the finish and the game was made.

INTERNATIONAL
Herald Tribune

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PARIS, JUNE, 1978

**Focus on
Venezuela—1978****Electing a President Freely for the Sixth Time**

By Joseph Mann

CARACAS (IHT)—The overwhelming issue in Venezuela today is politics. Whether the average Venezuelan really cares or not, he is finding out that the 1978 presidential campaign is everywhere.

Newspapers, magazines, television and movie theaters bombard the public with images of concerned candidates trekking through endless slum cities covering the capital's hillsides, or of angry candidates telling mass rallies how they will solve the country's problems or of sweating candidates jovially shaking hands with peasants in forgotten rural villages. If a citizen somehow has managed to elude all this, he is certain to encounter a spirited neighborhood rally, auto caravans honking and blasting their messages over loudspeakers, a tree or lightpost wearing a campaign poster or a wall converted to a blackboard for political slogans.

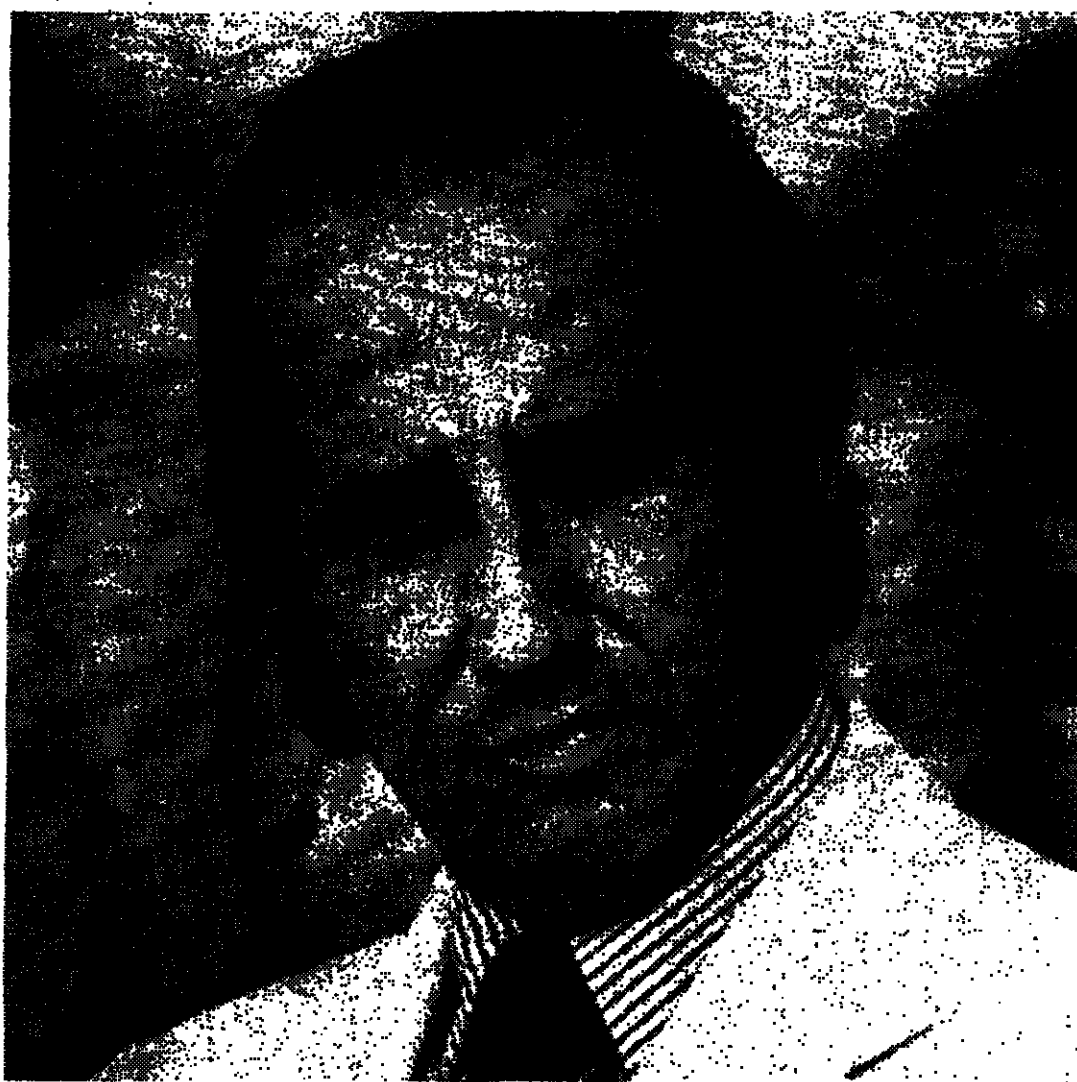
This riot of speeches, verbal attacks, promises, meetings and trips to nearly every corner of the nation populated by voters will reach its climax later this year when several million Venezuelans go to the polls to choose a new president, more than 200 members of the Senate and Chamber of Deputies, plus state and local representatives. Under current legislation, all of these officials will be elected in early December and will start five-year terms next March.

Free Elections

The Venezuelan campaign should not be sniffed at as yet another example of wild and probably corrupt tropical politics. On the contrary, Venezuelan democracy—despite its flaws—is a rare and open exercise in free elections. This noisy, rough, costly and enthusiastic campaign represents part of a recurring effort to demonstrate that not all Latin Americans need dictators to manage their affairs. However, this has not always been the case in Venezuela.

By chance, this electoral year marks the 20th anniversary of the overthrow of Venezuela's last dictator, Gen. Marcos Perez Jimenez. December's voting will be the sixth time that Venezuelans have had an opportunity to choose a president.

In 1947, the nation's first general elections were held and novelist Romulo Gallegos, representing the Democratic Action party, won the presidency. The Gallegos administration, however, was toppled the following year by a military coup, one of whose leaders was Gen. Perez Jimenez. After sharing power



President Carlos Andres Perez.

with fellow officers for two years, Gen. Perez Jimenez assumed full control of the government and initiated an eight-year autocratic regime that ranks as one of the cruelest and most corrupt in modern Latin American history.

The government of Gen. Perez Jimenez, whose principal claim to fame was an extensive system of public works, was ousted by a military revolt in January 1958. A ruling junta composed of civilians and military men took over temporarily, then called elections in which Romulo Betancourt of the Democratic Action party (AD) was chosen president.

Under the current government, headed by President Carlos Andres Perez Rodriguez, it has been clear that the Venezuelan military is in-

tent on supporting civilian regimes. Far from presenting a threat to the current system, Venezuela's armed forces are working to ensure that this year's elections are carried out smoothly and efficiently.

In the current campaign, the nine presidential hopefuls who have declared themselves thus far are vying to head one of the most prosperous and dynamic nations in Latin America. Since the Organization of Petroleum Exporting Countries (OPEC) increased oil prices fourfold in 1973, the Venezuelan government, which obtains most of its income from taxes on petroleum exports, has garnered tens of billions of bolivars in new resources.

The two most powerful political groups in Venezuela for the past

two decades have been the Democratic Action party, which won the presidency in 1958, 1963 and 1973, and the Social Christian party (COPEI), which captured the presidential palace in 1967 but failed to win a majority in Congress. (Although any president in Venezuela wields tremendous power, a majority opposition in the national legislature can effectively limit his action.)

AD's candidate this year for the chief executive's job is Deputy Luis Pinerua Ordaz, a member of the Lower House of Congress, secretary general of his party and lifetime party worker. Mr. Pinerua has served as acting president, minister of the interior, head of the National Agrarian Institute (IAN) and governor of Monagas state. Born in

eastern Venezuela in 1925, the AD standard-bearer has been attacked by critics as being a dour and dull product of the party machinery. Thus far during the campaign, however, Mr. Pinerua has stressed that he will choose the most qualified individuals to serve in his government, regardless of party affiliation.

Representing COPEI is a long-time party member, Sen. Luis Herrera Campins, also born in 1925. Mr. Herrera's enemies charge that he lacks high-level government experience, which is correct, and is therefore not prepared to assume the presidency. Sen. Herrera, who has lived in France and Italy and has worked extensively with Social Christian parties overseas, discards this allegation. For several months last year he was leading the AD candidate in national polls. Recent polls, however, have given Mr. Pinerua an advantage over the COPEI contender. But with six months to go before voting time, there is still plenty of space for each candidate to carve out a more substantial position.

The Unaffiliated

In terms of party organization, AD holds the advantage with a registered active membership of about 1.3 million persons and an efficient national party network. COPEI's active membership is estimated to be between 600,000 and 800,000 and the party is working hard to revamp its national system. However, most of the six million Venezuelans eligible to vote this year consider themselves independents, many of them youths voting for the first time. An effective appeal to this large group of unaffiliated electors could swing the results in either direction.

Both candidates have been traveling widely around the country and working long hours on the campaign trail. Although neither of the two "established" parties has as yet presented a formal platform, both contenders have outlined their proposed government programs on many occasions.

Mr. Pinerua, although previously critical of the current president's efforts in some areas, pledges a continuation of the present Democratic Action government plans, with particular emphasis on resolving domestic problems such as crime, shortages of water and housing, agricultural insufficiencies and on mounting a crackdown on corruption in government.

Sen. Herrera, who also offers voters a comprehensive plan of

public works, has fiercely attacked the present AD regime for spending more money than any government in history, while failing to resolve major national problems. He has cited the almost monthly "crises" afflicting the administration of President Perez, such as severe water shortages in the capital and other large cities, power shortages, a lack of foods like milk, eggs, meat, chicken and coffee, higher prices and the chronic insufficiencies of other public services.

Problems

The AD campaign has received an important boost from President Perez, who recently initiated a major public program calling attention to the achievements of his administration. Mr. Perez took office in 1974, just in time to reap the benefits of the petroleum bonanza. Although incumbent chief executives are expected to remain outside ongoing political frays, it is clear that the Perez administration's publicity blitz will not hurt AD's chances in December. Responding to charges of foul play from the opposition, Mr. Perez maintains that he will not take part in the campaign but will continue to do his job as president.

In spite of the great financial advantages enjoyed by the Perez administration, the government has indeed been plagued by problems resulting from its own enormous judgments and inefficiencies as well as from the difficulties presented by a massive surge in national demand for goods and services that began in 1974 and that could not be met by domestic productive capacity. Even unprecedented official spending could not fill all the gaps.

As many critics note, the president's admirable taste for hard work has produced relatively meager results. The problem, they say, is that Mr. Perez is too much of an authoritarian, too convinced that he can and should attend to all matters by himself. One former Cabinet minister said privately, "I think his biggest failure is his inability to develop good managers at the Cabinet level; ministers who can make sure that things get done. No matter how smart or energetic the president is, he simply can't do everything by himself. He must learn to delegate authority."

Nonetheless, Mr. Perez's place in history is assured as a result of his government's successful nationalization of the \$5-billion foreign-owned petroleum industry, and his

(Continued on Page 9)

Economy**State on Spending Spree
For Development Plan****CARACAS (IHT)**—Venezuela, which became rich practically overnight when oil prices rose spectacularly in 1973, has been spending its money nearly as rapidly as it has and has gone into debt. The country has not, however, necessarily squandered its wealth.

On the whole, Venezuela has been spending its money in a responsible fashion and has gone into debt for sound business reasons. Early, the country has encouraged—and will continue to encourage—serious problems in efficiently administering its abundant resources. But despite pitfalls, economic delays, waste and flaws in government's economic program, Venezuela is unmistakably living ahead.

During the administration of President Carlos Andres Perez, sworn in at the start of 1974, inherited the economic problems produced by the decision made a few months earlier by the Organization of Petroleum Exporting Countries (OPEC) to raise oil prices. Even though Mr. Perez and his advisers ordered cutbacks in the oil production their first year in office, they saw the government's revenues more than double. The central government got that first year rose to 42.5 percent of total revenue, up from the previous year's 14.8 percent.

In the 1974-77 period, the Perez administration spent over 177 billion bolivars, far more than total spending by all Venezuelan governments from 1963-73. Like other OPEC members, Venezuela decided to spend heavily on social services and a major industrialization program; unlike some of its oil-producing partners, though, the country did not make colossal outlays in arms.

The Perez administration's spending scheme is guided by the National Plan for Social and Economic Development, a bulky document published in 1976 calling for government investments of 8 billion bolivars between 1976 and 1980.

The fifth plan contemplates massive government outlays in the following areas: industry (steel, aluminum, electric power); transportation (the national railway system, the Caracas metro, highways, passenger jets, ships); a broad range of public works; agriculture and unprecedented allotments for education, health, social welfare and foreign

ly, some money did trickle down to low-income groups. (In addition the poor are partially sheltered from inflation by government price controls over a wide spectrum of popular goods and basic services.)

Boom

The economy boomed, with commerce, industry and construction leading the way. Wealth is apparent nearly everywhere in Venezuelan cities. Automobile dealers sell fleets of fancy U.S. cars assembled here that cost as much as 75,000 bolivars, while importers—until recently—thought nothing of bringing in the most expensive U.S. and European cars, with customers paying a 35-percent ad-valorem tax.

Shopping centers offer a dazzling variety of luxury imports at prices that would stun U.S. or European shoppers; the best apartments sell at around 1 million bolivars; magazines and newspapers are stuffed with advertisements for every imaginable kind of consumer and luxury item; Venezuelan tourists travel overseas in hordes, earning reputations as the big spenders of Latin America; real estate companies in Florida do a booming business selling Venezuelans second homes.

Affluence

Even in the thousands of ramshackle—or shum houses—that cover parts of this modern city, a degree of affluence is visible. Some of the neighborhoods, particularly the newer ones, are indeed studies in misery. But older mancha areas, where families have lived in the same houses for years, are middle class neighborhoods where homes often sport rugs, radios, televisions, refrigerators and other appliances.

The country's gross domestic product (at current prices) grew by 53.6 percent in 1974, thanks to the increments in oil prices and petroleum receipts: GDP between 1972-76 increased by 119.6 percent. Last year, GDP growth was reported by the State Planning Ministry to have been 8.4 percent, up from 7.7 percent in 1976. (These and other

(Continued on Page 2)

**Nationalization of Oil Sector
Has Been a Resounding Success****Under Way**

The plan is now well under way and will have an impact on the national economy far beyond 1980. Initially aims at reducing the country's lopsided dependence on oil income (which has traditionally provided the government with the bulk of its revenue), blishing a solid industrial and cultural base, creating tens of thousands of new jobs and reducing private sector expenditures given priority by the government. Though the private sector's role is crucial in ensuring the success of the plan, it is plain that state is now, more than ever, dominant economic force in Venezuela.

When the Perez administration nationalized the country's giant oil industry in 1976, it gained control of the most important national industry and assumed the responsibility for managing a major share of the gross domestic product. Here government is not only a regulatory agency, but also owner of industries (petroleum, steel, electric power), provider of many essential services, investor of the order and chief source of funds for the private sector.

During the last four years the state in official spending, the large numbers of new workers and an obligatory wage increase for all income employees combined to create tremendous growth in demand for all types of goods and services. While much of the petroleum revenues spent by the government accumulated in the hands of rich merchants and industrialists, making up Venezuela's oligopo-

CARACAS (IHT)—Venezuela's petroleum industry—under full government control for over two years—continues to function as the most efficient, profitable and significant sector of the national economy.

Last year the nation produced 816.1 million barrels of crude oil, an average of 2.24 million barrels per day (bpd), and exported crude and refined products totaling 736.9 million barrels, or a daily average of 2.02 million barrels. These figures are down slightly from levels registered in 1976, and are far below the output and sales of big Middle East producers like Saudi Arabia and Iran, but they nonetheless rank Venezuela as one of the world's major oil exporters and the largest in Latin America.

This year crude production has averaged 1.9 million bpd, off 14 percent from the government's goal of 2.2 million bpd. If this trend continues, the government will have to cope with a substantial drop in its revenues—most of which come from petroleum exports. However, government spokesmen are confident that demand will recover and that the industry will be able to reach a point near its production target by the end of the year. In any case, the Cabinet has already ordered spending cuts totaling more than 2 billion bolivars (\$465 million) in the government budget, which is now 52.6 billion bolivars.

Most of Venezuela's petroleum exports have traditionally been sold to the United States, and this situation has remained unchanged since nationalization. The East Coast of the United States purchases the lion's share of Venezuelan oil in the form of crude or residual fuel oil.

Government figures show that 34 percent of total Venezuelan oil sold abroad goes directly to U.S. markets, while 11 percent is shipped to Canada and 34 percent to the Caribbean. (Most of the oil sold in the Caribbean goes to Exxon and Shell refineries in the Dutch Antilles where it is processed and re-exported to American customers.) Central and South America buy about 8 percent of the country's petroleum exports while 11 percent is sold in Europe.

Total Income

The state holding company responsible for running Venezuela's nationalized oil industry—Petroleos de Venezuela—reported that total income last year in the oil sector amounted to 41.3 billion bolivars, with 39.5 billion bolivars derived from export sales. The state oil monopoly paid the treasury over 26 billion bolivars in taxes and royalties last year and reported net income of approximately 3 billion bolivars for itself. These results were considered satisfactory by in-

dustry executives and roughly matched the holding company's performance in 1976, the first year it managed the nationalized oil complex.

Petroleos de Venezuela was formed by the government in 1975 in order to direct and coordinate activities of the separate firms that came under its control on Jan. 1, 1976. In 1976, Fortune magazine placed Petroleos de Venezuela in 11th place among the 500 largest industrial corporations outside the United States. With sales totaling more than \$18 billion in 1976-77 and assets of nearly \$5 billion, Petroleos is ranked No. 24 in Fortune's list of the 50 largest industrial companies worldwide.

Petroleos de Venezuela currently oversees activities of the 14 operating companies that existed at the time of nationalization. (More than 14 foreign oil companies were taken over in 1976, but only 14 were actually producing oil, the rest having various investments in the country.)

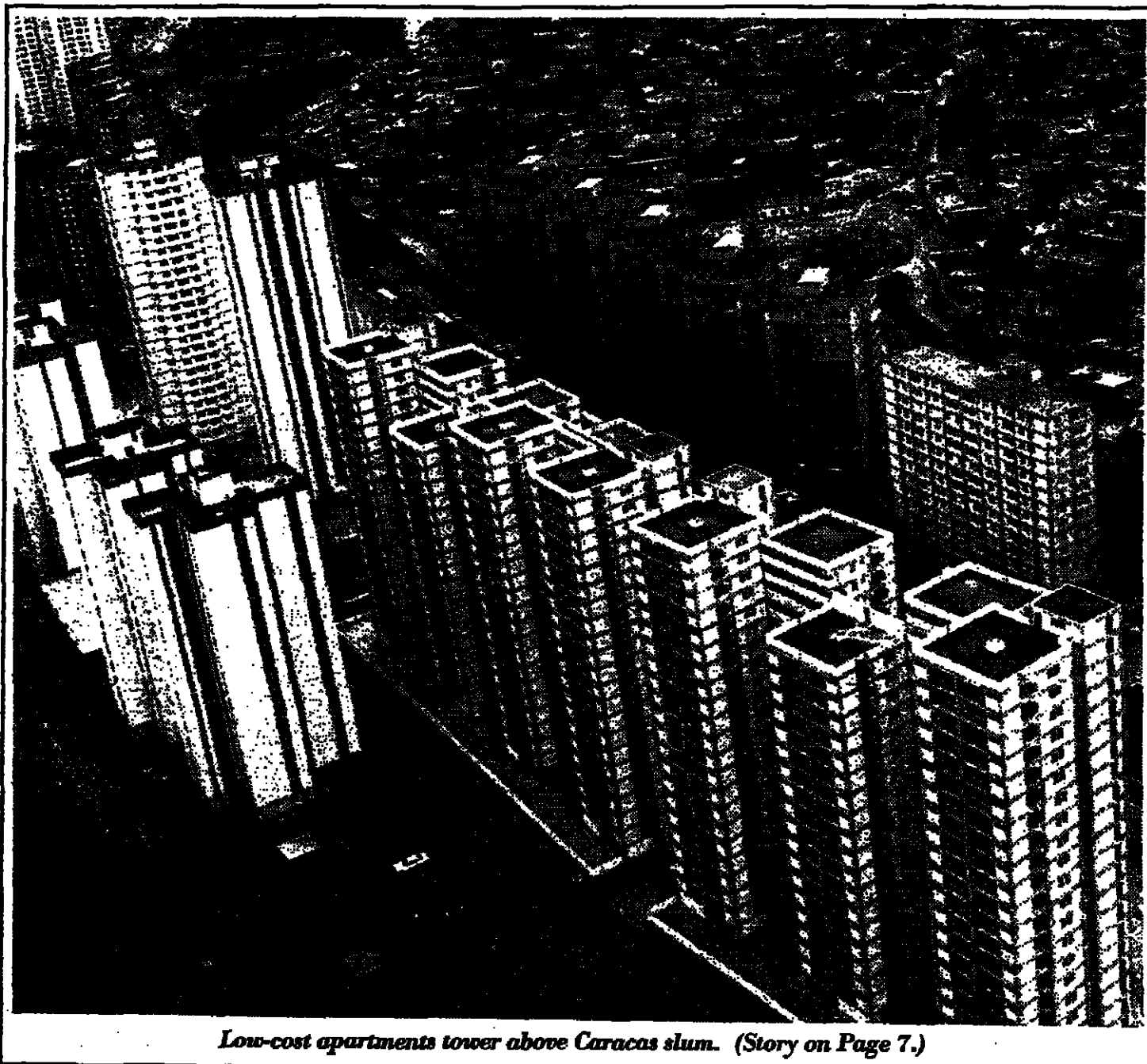
The state oil monopoly is moving ahead, however, with plans to consolidate existing companies into four large units, which will offer a more efficient industry structure. The four major affiliates of Petroleos, according to sources in the industry, will be Lagoven (formerly the Exxon subsidiary here, known as Creole Petroleum); Maraven (formerly Shell de Venezuela); Meneven (formerly Gulf, in association with other U.S. firms) and CVP/Llanoven, a combination of the old government oil company CVP (Corporacion Venezolana del

This Section

This special report was prepared and written by Joseph Mann with Keith Grant and Monte K. Hayes.

The current value of the bolivar is 4.3 to the dollar.

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Low-cost apartments tower above Caracas slum. (Story on Page 7.)

Strict Government Policies Keep Foreign Investment Low. . .

CARACAS (IHT)—Foreign investment in Venezuela, which entered the country at an estimated rate of \$100-\$200 million per year in the late 1960s and early 1970s, has shown a considerable slump since 1974. Private sector estimates put capital inflow over the past four years at an average of \$50 million per annum.

Although hosts of potential new investors have been attracted by the country's rapid economic growth since oil prices rose in 1974, enthusiasm has cooled rapidly on exposure to the government's strict policies regulating foreign capital. Even foreign investors already working in the country have often been reluctant—or unable—to put new money into their enterprises.

Upon taking office in 1974, President Carlos Andrés Pérez's administration assumed a serious attitude toward regulations on foreign capital drawn up by the Andean Common Market, a regional integration association made up of Bolivia, Colombia, Ecuador, Peru and Venezuela. Under terms of the Andean Pact's Decision 24, restrictions are placed on foreign investment, private borrowing from abroad, and technology transfers. All new foreign investment must be approved by the government (in this case the Superintendency of Foreign Investment—SIEEX), and foreign capital outlays are either banned in certain economic areas or restricted to minority holdings.

Cooperation Basis

In a speech in 1975, President Pérez made the following comment: "Foreign investors who wish to continue profiting from our economy will have to operate on the basis of cooperation, understanding and accepting the rules of the game formulated: sharing the burdens and fulfilling the requirements of national development." The Pérez government's attitude was not xenophobic, nor was it overtly opposed to new investment. On the contrary, Venezuelan leaders realized that they needed a constant flow of new foreign technology to complement their own internal development. But the president and his advisers believed that foreign capital had caused distortions in underdeveloped economies in the past, due to the fact that it was generally unregulated and often did not conform to developmental priorities set by governments in the

countries where investments were made. At the same time, the Pérez administration saw the Andean Common Market's code on foreign investment as a convenient vehicle for setting guidelines in Venezuela and furthering the cause of regional economic integration.

It should not be forgotten, however, that the newly installed Pérez government, feeling flush because of its unprecedented influx of petroleum riches in 1974, also felt that foreign investment simply was not needed as much as before, now that the Venezuelan state had ac-

cess to seemingly limitless amounts of money from its petroleum exports. "The theory seems to have been," one foreign businessman said, "that the government could squeeze foreign investors as never before, getting them to toe the official line whether they liked it or not. After all, a lot of foreign businessmen were drooping to get a piece of the action after the oil bonanza began, and the Venezuelans knew they could afford to wait."

These elements, combined with the seemingly endless red tape and mountains of regulations produced

by SIEEX, created an atmosphere that kept away a large number of non-Venezuelans who otherwise might have invested here, thus satisfying domestic market needs, creating new jobs and aiding the country's currently ailing balance of payments.

John Pate, a U.S. citizen who serves as a consultant to foreign investors in the Venezuelan capital, commented: "The country has lost out considerably by discouraging foreign investment. Given the country's excellent economic circumstances over the last four years,

Venezuela has probably lost around \$200 to \$300 million a year in new investment, plus there has been no new inflow of technology."

"Comparing our performance [in attracting new investors] to economies of countries like Chile and Argentina," he added, "you can see the country has lost abundant sums of capital and technology."

Nationalizations

Visitors often question the government's nationalization of foreign oil companies and iron-ore mining companies here in 1975 and

1976, asking whether these takeovers signify a basic negative attitude toward foreign investors. The questions of oil and iron ore are another matter, however. The government, after deciding it would assume control over these basic industries to ensure its own future development, held lengthy negotiations with the affected companies and paid indemnities totaling about \$1.14 billion to the concerns involved. In both cases, the takeovers were carried out in a businesslike manner (even though the nationalized firms were obviously

not delighted by the move), and the parent companies continued to provide Venezuelans with technical assistance after the transitions.

One incident last year, however, did leave a bitter taste in the mouths of many foreigners. Following the kidnapping of the manager of Owens-Illinois de Venezuela, a U.S. glass manufacturing firm, the government expropriated Owens' assets here. The move was prompted by the U.S. firm's efforts to negotiate with Venezuelan terrorists holding a U.S. citizen, William Nelhouse. Administration offi-

cials stated that government policy forbade negotiating with extremists in cases such as this and moved to take over the company.

In terms of foreign investment policy, the Pérez government maintains that it is eager to permit new capital to enter the country, as long as investment regulations are followed. (Ironically, other members of the Andean Pact have been considerably less stringent in enforcing these rules.) In fact, the government has shown signs of easing its requirements. Over the past year or so, SIEEX has raised the limit on profit remission from 14 to 20 percent, lifted the ceiling on reinvestment from 5 to 7 percent, eased some credit facilities and opened new areas for foreign participation.

Increase

Last year, SIEEX's authorizations for new foreign investments totaled \$216.5 million, a significant increase from \$50.8 million in 1976 and \$40.9 million the year before.

Switzerland took the largest bite of this total with 52.6 percent (Alusuisse will build an alumina plant in the Guayana industrial region), while the Spanish came in second with 27 percent (Spanish firms won contracts for building shipyards and a plant for diesel engines and heavy trucks).

The United States, which accounts for 56 percent of all foreign investment here, only took 10.6 percent of last year's figure.

With around 2,000 foreign firms and investors (some of whom are individuals with small holdings), and with registered foreign investment estimated by the government to be at \$1.5 billion, Venezuela still ranks as an important target for foreign capital. Before current or future investors increase their stakes in the country, however, they want to see investment regulations relaxed, simplified and made consistent. "The Venezuelans have watched a lot of foreign money go to other parts of Latin America recently, and up to now it hasn't mattered to the government all that much," one U.S. executive said. "In their early years they had more money than they could spend. Now things are getting tight, and the next government will be facing a totally different panorama. I think most of us are just waiting it out, hoping that the next administration takes a less rigid attitude."

—J.M.

. . . While Putting a Liquidity Squeeze on Banks

By Keith Grant

CARACAS (IHT)—Venezuela's generally thriving banking and financial system has in the last year or so unexpectedly found itself face to face with a government determined to redirect credit towards socially desirable projects.

A sky-is-the-limit attitude prevailed following the oil price hikes, which enabled outstanding bank credits to jump from 13.2 billion bolivars (\$3.07 billion) at the end of 1973 to 47 billion bolivars by February 1978. But the bank's liquidity has been a two-sided coin: Although more money has been made available for industry and agriculture, it has helped fuel chronic real estate inflation and a huge consumer spending spree.

The government first took steps to curb money supply growth, and thereby inflation, with an economic package in April 1976. Legal reserve requirements on banks were raised to 50 percent on official deposits; and, at the same time, credit granted by the 13 mortgage banks (*bancos hipotecarios*) and 30 finance companies (*sociedades financieras*) was redirected so as to encourage more lower and middle-income housing.

The 12 months following proved that the dose of austerity had not been enough since money supply once more began to take off and real estate values in Caracas were some 300 percent above those of only three or four years previously. President Carlos Andrés Pérez took action by announcing last July a much more severe austerity package, slashing an extra 25 percent

on legal reserve requirements, imposing a reserve for *financieras* on foreign currency demand and time deposits of between 35 and 42 percent, and intensifying its regulations obliging more credit for cheaper housing.

There followed a war of nerves when the private sector, almost unanimously complained of bank credit drying up because of the liquidity squeeze, and whistles of recession and capital flight began to be heard. The powerful business organization *Fedecamaras* and its members in the Venezuelan Banking Association, defended their interests convincingly by pointing out that much of the private sector's shortage of cash was due to untidy government payments on official projects.

At first refusing to contemplate changing the measures, the government finally gave in and in October began offering generous discount facilities to banks short of cash. Subsequently the deadline for complying with the new 75-percent reserve requirement was postponed from December to February.

Measures Relaxed

The government said it was relaxing the measures because they had had the desired effect, and certainly monetary liquidity was held at 36 billion bolivars for four months and inflation was checked. Nonetheless, the banks remain unhappy this year over liquidity levels and once again the central bank has expanded discount facilities and also agreed to forgo the last percentage increment in banks' le-

gal reserve requirement. To ensure that funds keep flowing to private construction, it has also taken steps to support the market for mortgage and financial bonds, which are a principal source of finance for these institutions.

The apparent upheaval caused by the government measures, according to many bankers here, reflects an unwillingness to adapt among the top banking hierarchy. Despite having seen their combined deposits shoot up from 16.7 billion bolivars at end 1973 to 54.6 billion bolivars at the end of January, the 35 commercial banks are generally conservative and relatively unsophisticated. "As long as profits keep coming in (and last year they rose from 666 million bolivars to 757 million bolivars) no reason is seen for diversifying operations," one foreign financier commented.

Venezuelan banks are dominated by a group of five or so—Banco Nacional de Descuento, Banco de Venezuela, Banco Union, Banco Mercantil y Agrícola and Banco Latino—which account for about half of combined deposits. Housing and construction loans are normally handled by mortgage banks and finance companies, the second of which also grant longer term industrial loans (5 to 15 years). Bank deposit and lending rates are both fixed by law, which means normal market forces of supply and demand do not affect, nor are they affected by, interest rate considerations.

According to some bankers here, the lack of a substantial money market to channel funds from liquid sources to non-liquid ones was

one reason for the liquidity crisis last year. Nonetheless, an embryonic money market along the lines of North American and European financial centers has come into being with a number of banks and finance companies setting up money desks. About a dozen have been set up in the last three or four years dealing exclusively in short-term money and paper, making a commission for trading on behalf of clients in corporate or financial organizations. Volume is estimated at some \$200 million a week. But few people even in the financial world here seem to understand what they are offering and some, indeed, appear to have been set up merely as status symbols, according to Juan Rada, manager of the Sociedad Financiera Union money desk.

The local capital market, despite efforts to widen its base, is at present of little interest to the wider investing public and the Caracas Stock Exchange itself turns over a minuscule \$250 million a year. The capital markets law of 1975, which gives tax incentives to companies that offer at least 50 percent of their stock to the public, has so far had only limited success in attracting either companies or small investors to the stock market.

In Drones

Soon after oil prices quadrupled and the Venezuelan Investment Fund was created to invest surplus petrodollars abroad, foreign financiers came in droves to advise on how to invest the windfall or how to set up an offshore investment

center to rival Panama. They were disappointed because the government decided instead to concentrate on channeling most of the wealth to national development programs. Apart from a few isolated bond issues here for the Banco de Peru and the Banco Centro Americano de Integración Económica, which were of a regional cooperation nature, Caracas has not become an international financial center in the full sense.

Nonetheless, some 85 international banks from the United States, Europe and Japan have representative offices here doing good business in lending short-term to the government and private sector. Foreign banks are limited, however, by the 1975 banking law, which restricts their participation to 20 percent in any local institution offering full banking services. This left already existing banks like First National City Bank, Chase Manhattan, Credit Lyonnais, Royal Bank of Canada, Lloyds Bank and others with the choice of full control with less scope or vice-versa. All except Citibank opted for the latter and have in any case retained significant influence in the policy of the "host" bank (Chase's in Banco Mercantil, Credit Lyonnais in Banco Provincial, Royal Bank in Banco Royal and Lloyds in Banco de La Guardia Internacional).

Meanwhile, some local banks have begun to look for opportunities abroad, notably Banco Union, Banco Mercantil, Banco Latino and Banco del Centro Consolidado. Banco Union last year bought a struggling New York bank, the Chelsea National, and through its

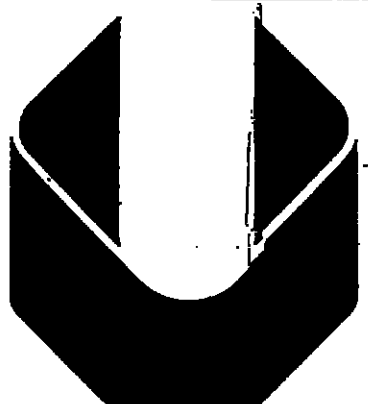
investment banking arm Sociedad Financiera Union brought off some innovative financial deals. SPU managed the first bond issue here by a European institution—a \$20 million, 7-year private placement for the European Investment Bank—and also floated the first-ever bolivar bond issue in Europe in its own name.

Different Pastures

In different pastures, the Banco Mercantil president and current chairman of Libra Bank Ltd., Alfredo Machado Gomez, has been looking at the Central American and Caribbean regions, which he says offer potential for banks interested in financing trade. Banco del Caribe, headed by Lebanese emigre N.D. Dao, has already opened a mortgage banking subsidiary in the Dominican Republic and is opening an office in Caracas.

A financial link has also been established to the Arab world, with the formation in 1976 of a consortium investment bank called Araven Finance Ltd., whose shareholders are Morgan Grenfell Ltd., Kuwait International Investment Co., Banco Latino and Banco del Centro Consolidado.

Significantly, a lot of the banking initiatives are taking place overseas, and financial sophistication at home will probably come only very slowly. Despite the tremendous liquidity boost caused by the oil boom, what goes up must come down and the financial system as a whole is likely to have to concentrate on adjusting to tighter conditions over the next few years.



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Tourism: Something to Offer but Lacking in Infrastructure

CARACAS (IHT)—A country with a warm, sunny climate, hundreds of miles of beaches along the Caribbean, snow-capped mountains in the Andes dotted with picturesque villages and wild but accessible South American jungles certainly has something to offer foreign tourists. Venezuela has all these elements—and more—but in

recent years has done next to nothing to encourage international tourism. At a time when Latin American and Caribbean countries are competing as never before for leisure trade from the United States and Europe, Venezuela has virtually ignored the potential benefits of international tourism. Since the pe-

roleum boom began here in 1974, the country's leaders have generally believed that luring tourists dollars, marks, francs and pounds to Venezuela was not terribly important. Instead, the government of President Carlos Andres Perez has concentrated its outlays for tourism on projects such as improved beaches and bathhouse facilities, and low-

cost resort areas and hotels strictly intended for domestic tourism. The results of this policy are painfully apparent to international travelers coming to Venezuela. The country's principal airport—called either Maiquetia or Simon Bolivar—becomes a study in chaos whenever more than two international arrivals or departures occur at the same hour.

Fistfights, shoving matches and exchanges of insults in Spanish and English are hardly uncommon as passengers desperately try to hold their places in the disorganized queues that form around airline ticket counters. During peak travel seasons, international and domestic flights are frequently overbooked and national airlines have become notorious for late arrivals, mysteriously cancelled flights and early departures that leave passengers stranded in the Venezuelan outback.

Better hotels in all the major cities are hopelessly overbooked almost year-round. Many visitors to Caracas—whether businessmen or tourists—are greeted at hotel reception desks by surly employees who claim that their confirmed reservations never existed and that lodging will not be available for several days.

Although Caracas is located in a spectacular valley about 3,000 feet above sea level, its traffic jams are hellish and its areas of tourist interest limited. (Probably the most popular tourist attraction—a cable car from Caracas to the top of Pico Avila 7,020 feet above sea level—has been out of order since last year and is not expected to be in operation again until the end of 1979.) While many examples of delightful Spanish colonial architecture are still standing outside the capital, Caracas' city fathers have permitted uncontrolled urban sprawl, which has wiped out most of the city's colonial zones and replaced them with glass and concrete office towers and high-rise apartment buildings.

Right Conditions

Tourism promoters and hotel executives, however, see good possibilities for developing a profitable tourist industry in Venezuela, given the right conditions. "We have a lot to offer the leisure traveler," a young executive at the Hotel



Cable car from the city of Merida to the top of Pico Espejo, 4,836 meters above sea level.

Tamanaco said. "But a tourist infrastructure has to be built before we can begin promoting Venezuela seriously."

"The main problem is that the government hasn't taken the tourist trade seriously up to now. Very few international grade hotels have been built during the last few years, and these are not sufficient to satisfy demand," he added. "And most of the projects being done by the private sector are aimed at Venezuelans who want a second house in the country or a beach club."

According to government figures, 997,783 persons visited Venezuela last year. Of these, 652,423 were tourists. 307,069 came on cruise ships that stop here for no more than 48 hours and 38,291 were passengers in transit to other points. A hefty proportion of the tourist category includes businessmen who came to Venezuela for a short period of time and opted not to cut through the red tape required in obtaining a transient or resident visa, and immigrants who hope to obtain work permits either through legal or illegal means.

The number of tourists has been steadily on the rise since 1970, but little has been done in recent years to accommodate the increasing numbers of visitors. During the boom days of 1974-75, when Venezuela's leaders were deciding how to spend billions of bolivars in new revenues, tourism was assigned a very low priority. Government thinking was essentially that emphasis should be placed on industrial and agricultural development. While international tourism provided significant foreign-exchange income for other neighboring countries, Venezuela did not at the time need more revenue. And some politicians did not want to "ruin" parts of Venezuela by attracting an excess quantity of foreigners as other countries had done.

"Obviously, some countries have overcome tourism developments," the Hotel Tamanaco executive asserted. "But this kind of thing can be done intelligently so as not to damage the environment. The government seems to be forgetting that a well-developed tourist industry not only brings in foreign exchange, but also provides thou-

sands of service jobs for untrained workers."

"We don't have the colonial charm or ruins that Mexico and Peru can offer," he said. However, Venezuela has its own strengths and natural attractions. In addition, the capital is only four and a half hours from New York. "Take the beaches, for example. This would be a logical place for Americans to visit in the winter. But the best beaches are miles away from Caracas and there aren't many good hotels available to foreign tourists."

While some improvements are in sight for tourists, it is unlikely that basic problems like overcrowded hotels and limited tourist facilities outside the capital will be overcome in the near future. Plans are now being made for new hotels and expansions in a number of areas, but these new rooms will not be sufficient to fill even current needs, according to tourism specialists. At the same time, the government is pushing to open a giant, new air terminal for Caracas alongside existing facilities. Whether this will

ease travelers' pains or not still remains to be seen.

One major problem, according to local representatives of foreign airlines, is the Venezuelan government's reluctance to permit foreign carriers to add sufficient additional flights during peak travel seasons. "The government airline, Viaz, wants to claim as much of the traffic for itself as it can. They're trying to handle too much and are just allowing other lines to offer services," complained the manager of one foreign carrier.

Caracas itself will also be a tiny problem for travel agents some time to come. The city is a logical place to start on a tour of the country. But as long as it suffers from overcrowding, expensive hotels, incredible traffic and a dearth of tourist attractions, service that pales in comparison to places such as Mexico or the Dominican Republic will be difficult to sell. "My job is to promote Venezuela," the sales manager of a local hotel said. "But how can I promote it when its capital city is messy?"

Agricultural Records Vaunted

CARACAS (IHT)—"Last year our farmers broke all the records," announced the huge, double-page advertisements that appeared recently in the Venezuelan press. "In more than 20 products, the 1977 harvest was the highest volume in our entire history...The new agricultural Venezuela is moving ahead."

These costly advertisements, paid for by the government and displayed prominently all over the country, also carried a photograph of President Carlos Andres Perez and a list of the impressive 1977 crop results in grains, vegetables, fruits, poultry and pork.

Despite nagging problems in boosting output of beef and other products, last year's excellent crop results are of particular significance to the government. The Perez administration has placed heavy emphasis on agriculture ever since taking office in March 1974, and has pledged to reform the country's agricultural system. Since that year, the government has spent an unparalleled sum of money, 19.7 billion bolivars (\$4.6 billion), on agriculture in an attempt to make the country self-sufficient in several widely used foods, as well as to breathe new life into neglected rural areas and convince businessmen to invest in agricultural projects. This figure does not include other expenditures made for public works, subsidies, tax relief and other incentives offered by the Perez administration.

The numerous official initiatives in agriculture include extending billions of bolivars in low-interest credits for large and small farms and ranches, and to other agribusiness enterprises; wiping out over 1.6 billion bolivars in agricultural debt; setting minimum, guaranteed prices for producers, and building a

wide range of public works directed at aiding farmers, such as rural roads and highways, silos, irrigation systems and flood control projects.

The government has also declared earnings on agriculture and agribusiness activities tax free; offered incentives on imported agricultural hardware; and sold seeds, fertilizers and breeding cattle at subsidized prices—often on credit.

These measures, however, have produced mixed results. Crop yields were indeed impressive last year in a number of areas, but during the same period food imports were the highest in history, due to a very bad harvest in 1976 caused by flooding and drought. Farmers consistently grumble about low prices for their products—a result of government price controls on many popular foods—and say that price increases authorized over the past few years have been insufficient to keep up with their costs.

Part of the billions of bolivars in agricultural credits and incentives has been sidetracked as individuals qualifying for low-interest loans invested the money in real estate or other sectors where the return is better. Recently introduced technology has undoubtedly aided farmers in many regions, but parts of the country still suffer from severe flooding or drought, which have yet to be brought under control. Uncoordinated government extension programs often do not reach farmers with solutions for plant or animal disease when they are needed, and landowners complain about constant, acute shortages of agricultural workers.

One particularly difficult problem is the race between production and consumption rates. With a per capita income of about \$2,000 (the highest in Latin America) and a

population growing by around 3 percent per year, domestic food demand has been increasing rapidly. Much of the increased buying power attained by Venezuela in recent years has been channeled to food purchases; even poor Venezuelans are now eating—if not better—at least more than before.

In spite of last year's good harvests, food imports, especially of beef, wheat and other popular food items, will clearly continue.

As 1978 is an election year, it is hardly likely that the government will allow shortages of popular food items to go unattended, regardless of the cost to the Treasury.

At present, it is hard to say how well the government's agricultural program is progressing. Are improvements in production due to real increases in efficiency that will provide long-term results, or simply due to the sheer volume of government funds being poured into the sector? President Perez has admitted that his government's agricultural plans have suffered some setbacks, but he pointed to last year's harvest figures and predicted that the real benefits of his administration's efforts would be visible only after he left office.

There have been some successes, some dismal failures, a great deal of wasted money and energy, slow starts and the unpredictable difficulties posed by the hubbub of all farmers—bad weather. But huge expenditures have been made in infrastructure, agricultural credit and other areas that will clearly benefit Venezuelan farmers and cattlemen. If Venezuela's food import bills shrink during the early 1980s, then members of the Perez government can boast that their efforts were not inconsequential.

—J.M.



fondo de inversiones de venezuela

Origin and History of the Fund

The Venezuelan Investment Fund—FIV—was created by Decree-Law No. 151 of 11th June 1974, and was amended by Decree-Law No. 748 of 11th February 1975. The following were established as its objectives:

- to ensure that all the considerable additional tax revenue derived from the rising price of oil on the international market is prevented from suddenly boosting the money supply and thus increasing inflationary pressures, and to keep resources available for Venezuela's development which could be used to improve the investment capacity of the country;
- to invest funds abroad which are not of immediate use in Venezuela, trying to obtain a satisfactory return;
- to try to ensure that funds invested in the country contribute to the accelerated diversification of national production by making various types of investments. This made it necessary to ensure that the majority of foreign investments could be easily realized, so that they could be returned without difficulty whenever required for use in priority development areas. The Fund would furthermore have to hold part of its assets in immediately realizable placings to provide a buffer as a means for foreign payments and for tax purposes, should any unforeseen factors arise which might affect the inflow of revenue;
- to channel funds in accordance with a coherent investment policy, capable of stimulating economic growth. The objectives of such a policy comprise the diversification of production, technological independence, redistribution of income and full employment; and
- to develop an active policy of international financial co-operation with developing countries, particularly those in Central America, the Caribbean and the Andean Region, aimed at accelerating their economic development, exploiting their natural resources, stimulating economic integration and fostering a new and more equitable international economic situation.

At 31st December 1977, the assets of the FIV totalled Bs 29,373 million, originating from the following sources:

	Millions of US\$
National Executive cash contributions	5,331
Interest earned from national and international transactions	1,330
Dividends from company shareholdings	102
National Executive contributions of capital goods	5,883

The following are the main projects which are currently being undertaken with financial aid from the VENEZUELAN INVESTMENT FUND.

01 Basic Industries

- 1.1 SIDERURGICA DEL ORINOCO (SIDOR) PLAN 4**
Objectives: The FIV is providing financial aid for the execution of Plan 4 to increase steel production from 1.5 to 5 million tonnes.
Financing: Up to 31,127.77 US\$885,730,226.00 as a loan, US\$422,364,589.00 in the form of equity investment share. This project, which is currently in progress, has provided the FIV with interest on loans amounting to US\$92,294,270.82 and with dividends on preference shares amounting to US\$10,578,974.
- 1.2 ACERIA ELECTRICA DEL CARONI S.A. (ACELCAR)**
Objectives: The construction of a plant with a capacity of 480,000 tonnes of liquid steel for manufacturing semi-finished and finished steel products (ingots, billets, bars and wire) to be used by the mechanical engineering, automotive, oil and other industries.
Financing: Loan of US\$69,889,341.87. Work is presently being carried out on the basic engineering for this project.
- 1.3 ALUMINIO DEL CARONI S.A. (ALCASA) STAGE IV**
Objectives: To increase aluminium production from 54,000 tonnes a year to 120,000 tonnes.

Financing: The FIV is financing this project to the amount of US\$69,889,341.87.

At the present time, 20 units included in the Stage IV extension of this project are in operation, and work is being completed on erecting and building the dust collection and fume control system.

1.4 C.A. VENEZOLANA DE ALUMINIO (VENALUM)

Objectives: The construction of a plant to produce 280,000 tonnes a year of primary aluminium to achieve a total output of 400,000 tonnes a year.
Financing: The FIV is providing a loan of US\$302,853,814.70 and an equity investment of US\$105,404,775.70.

Construction of the plant is currently at an intensive stage, and the first 20 units of Bay 1 will be put into service next May.

1.5 INTERALUMINIA Y ASOCIADOS

Objectives: The supply of alumina to the Alcasa and Venalum aluminium plants, which will require 850,000 tonnes p.a. of a total output of 1 million tonnes p.a.
Financing: The FIV will hold an equity investment share of US\$172 million.

The project is currently in the basic and detailed engineering stage.

02 Shipbuilding

2.1 CORPORACION VENEZOLANA DE LA INDUSTRIAL NAVAL C.A. (COVINCA-ASTINAVE)
Objectives: Development of the ship repair and building yard.
Financing: The FIV will make an investment of US\$21,141,525.91. The company was incorporated in October 1977.

2.2 DIQUES Y ASTILLEROS NACIONALES C.A. (CIANCA, STAGE II)
Objectives: Repair, maintenance, conversion and building of ships and equipment.
Financing: The FIV has an equity investment share of US\$32.6 million.

The civil engineering work and the fitting of synchro-lift equipment have been completed.

03 Cement Industry

CEMENTO CARIBE C.A., CEMENTO CATATUMBO C.A., CEMENTOS ANDINOS C.A.
Objectives: To increase production of cement to meet the requirements of the domestic market.
Financing: The FIV has approved a total loan granted through the CVF amounting to US\$76,295,864.88.

The construction and engineering work is currently in progress.

04 Electricity

4.1 ELECTRIFICACION DEL CARONI C.A. (EDELCA)
Objectives: To extend the present Guri dam by 64 metres and to raise the existing spillway.

Financing: The FIV holds an equity investment of US\$206,126,855.50 and has provided a loan of US\$133,964,571.90.

The power generation work is currently in progress, and contracts have been signed for the purchase of 10 turbines and 10 boilers.

4.2 COMPANIA ANONIMA DE ADMINISTRACION Y FOMENTO ELECTRICO (CADAFE)
Objectives: Expansion of Cadafe by building the Planta Centro thermoelectric station.
Financing: The FIV is investing US\$465,928,845.80 in the form of loans and equity capital.

Commissioning of the two generating units is planned for the end of 1978. In addition, the FIV holds 96.7% of the shares in ENELBAR, which is the electricity generating company for the State of Lara, and furthermore, it has a shareholding in the expansion of ENELVEN, which generates electricity for the State of Zulia.

05 Transport Industry

5.1 FLOTA MERCANTE C.A.V.N.
Objectives: Expansion and renewal of the fleet by purchasing 10 new vessels at an approximate cost of US\$223.6 million.
Financing: The FIV has an equity investment of US\$93.2 million.

The Guri Dam currently being extended by 64 metres.

The C.A.V.N. has now taken delivery of 8 of the ships on order. The remaining two will be delivered this year.

5.2 CORPORACION VENEZOLANA DE INDUSTRIA AERONAUTICA (CORPAVENCA)

Objectives: Promotion, creation and development of companies involved with Venezuelan aviation.
Financing: The FIV has an equity shareholding of US\$2.33 million. A company called VENEAMICA has already been formed and is actively engaged in rebuilding engines.

06 Storage

6.1 NATIONAL SILO PROGRAMME, STAGES I AND II

Objectives: Increase in storage capacity for cereals, leguminous and oleaginous products to 440,000 tonnes. This project is being carried out in two stages.
Financing: The FIV is providing a total loan for the two stages of US\$68,677,926.61.

The first stage has been completed, and the 9 stations included in it are now ready to receive grain. The second stage is 95% finished and is expected to be put into service this year. The FIV has received two repayments of the loan for the first stage and one repayment of the loan for the second stage.

07 Mining

7.1 COMPANIA GENERAL DE MINERIA DE VENEZUELA C.A. (MINERVEN)

Objectives: Exploitation of the Colombia gold mine in the State of Bolivar to attain an average monthly output of 42 kg of gold.
Financing: The FIV has an equity investment of US\$23,179,965.00 (amounting to 99.5% of the total share capital) and has provided a loan of US\$8,381,578.

Projects currently in progress are the Minerven I line, the Treatment Plant, infrastructure works and the Electromechanical Unit.

7.2 VENORCA

Objectives: Processing gold ore extracted at El Ollao.
Financing: The FIV has so far paid US\$82,411.00. The company is now in operation, and in 1977 processed 57,611.9 tonnes of gold ore.

Other projects under consideration

A number of basic industry projects have been submitted for the consideration of the FIV, and decisions will have to be made in the coming years. Such projects include the following:

The Zulia Steelworks in its initial stage is to produce 1,200,000 tonnes p.a. of liquid steel, and its cost is estimated at US\$488.5 million.

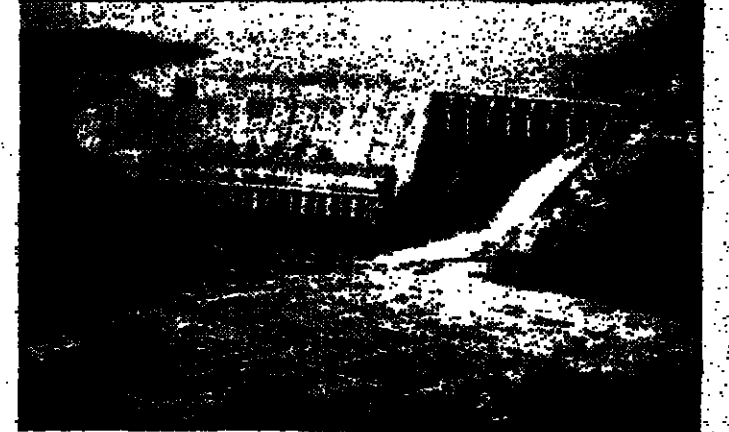
The Aravena project involves building a blast furnace at Puerto Ordaz, State of Bolivar, capable of producing 100,000 tonnes p.a. of pig iron.

The Compania Nacional de Reforestacion (CONARE) presented the FIV, with a reforestation project for industrial purposes. Such project involves planting 302,000 Ha. with eucalyptus and Caribbean pine in the southern part of the States of Anzoategui, Monagas and Bolivar.

The Forestal del Orinoco C.A. (FORESTOR) project involved planting an area of 60,000 Ha. with eucalyptus on the slopes of las Hachas, south of the Morichal Largo River in the State of Anzoategui.

The Celulosa del Orinoco C.A. (CELULOR) project entails building a factory in the south of the State of Anzoategui with a production capacity of 300 thousand tonnes a year of paper pulp. The Guasare Coal project, which is being promoted by the Zulia Development Corporation, involves the exploitation of extensive coal deposits in the area.

The Compania Anonima Minas de Naricual (CAMINA) proposes to achieve an output of 925,000 tonnes p.a. of crude coal, from which would be obtained 600,000 tonnes p.a. of washed coal and 64,880 tonnes p.a. of middlings (by-products of washed coal). Boreholes and preliminary analyses of the bauxite deposits in the Pijiguas, State of Bolivar, indicate that the reserves of high quality of ore are very favourable for mining.



Other aspects
Apart from work carried out in the context of national and international programmes, the Fund has actively worked to conserve and increase the amount of funds allocated to it. To this end, through the International Finance Authorities, it has made placements and investments abroad in the short, medium and long terms based on different profitability criteria and depending on the characteristics and opportunities existing for each type of transaction.

During its existence, the Fund has built up a functional structure enabling it to efficiently fulfil the objectives assigned to it by Law. In this respect, special attention should be given to the qualifications of its technical staff and to the links that have been established with major finance institutions throughout the world.

International Programmes
Since 1974, Venezuela has implemented an extensive policy of international financial co-operation to fulfil, in general terms, the following objectives: promotion of international solidarity with developing countries with a view to protecting the prices of raw materials; assistance to increase the production capacity of Latin American countries; stimulation of economic integration at the regional and sub-regional levels; promotion of trade between Venezuela and the other nations of the continent; and contribution towards creating a new, fairer and more equitable international economic situation.

International economic co-operation is a written objective in the Constitution of the Republic of Venezuela. Financial aid allocated by Venezuela through various multilateral and bilateral programmes for 1974 to 1977 amounted to US\$4,320 million, and US\$2,708 million were disbursed in the same period. If these figures are applied to the gross domestic product, they represent percentages many times greater than those corresponding to the financial aid provided in the same period by the major industrialised nations.

The FIV has been one of the principal instruments through which international financial co-operation has been made possible. In fact the FIV has been the vehicle through which 46% of the allocations channelled (see Table No. 4).

From 1974 to 1977, multinational programmes accounted for 59% of the Fund's total transactions and 41% of the bilateral ones (see Table No. 5). The former have been implemented through international institutions of acknowledged standing, and the latter through the central banks of the countries concerned, whose solvency and prompt settlement of obligations has always been satisfactory. In such transactions, consideration has also been given to the need to strengthen Venezuela's economic links with the beneficiary countries and to give them assistance in dealing with temporary situations affecting their economies. In addition, project financing granted by the FIV to various Latin American countries is supported by additional loans provided by other international organisations of acknowledged standing, and operating procedures have been developed with such organisations in order to supervise the projects receiving the financial backing.

Allocations		Disbursements	
Millions US\$	%	Millions US\$	%
I. Multilateral Co-operation			
1. Venezuelan Investment Fund	78.4	1,912.8	70.7
2. Other Institutions	27.3	837.0	30.9
II. Bilateral Co-operation			
1. Venezuelan Investment Fund	49.0	1,075.8	39.9
2. Other Institutions	23.6	793.4	29.3
GRAND TOTAL	100.0	2,708.2	100.0

كلنا من الضحك

Ambitious Projects Map Industrial Future Beyond Petroleum

CIUDAD GUAYANA (IHT)—If Venezuela has an industrial future beyond petroleum, the country's traditional source of wealth, this future is now taking shape on the plains around this oppressively hot city in the sparsely populated south.

Ciudad Guayana, a boom city on either side of the Orinoco river, takes its name from the region where it is located—the Venezuelan Guayana.

Guayana, which encompasses half of Venezuela's national territory, is a region rich in natural resources such as high-grade iron ore and bauxite, petroleum, gold, diamonds and a staggering potential for hydroelectric power.

The projects in heavy industry being carried out here by the Corporación Venezolana de Guayana (CVG), an immense government development agency responsible for the entire region, are among the most ambitious in all of Latin America. A giant steel mill, aluminum factories that will place Venezuela among the world's largest producers of the metal, a hydroelectric dam ranking among the largest anywhere and a slew of other public and private projects share the dual purpose of establishing a diversified industrial complex for Venezuela and attenuating the nation's traditional dependence on petroleum and imports from the developed world.

The principal Guayana projects and associated infrastructure are expected to cost about 50 billion bolivars (\$11.6 billion) between 1975 and 1980 and even more down the line. They represent the biggest single block of government investment in Venezuela's history, will absorb a preponderant share of the nation's petroleum revenues and will require additional financing from overseas.

If the Guayana experiment proves to be only mildly successful, it will provide tens of thousands of new jobs, save billions of bolivars on imported materials and constitute a great step toward industrialization for this country of 13 million.

However, if the Guayana investments, on the whole, turn out to be only slightly unprofitable, the consequences for the national economy could be disastrous. At present, Guayana is in its initial stage of development.

What are the major projects now under way?

The government's master blueprint for developing the Guayana complex, contained in the fifth National Plan for Economic and Social Development, sets out plans for the expansion of existing steel and aluminum facilities, construction of a giant aluminum plant and a factory for producing alumina, enlarging the Guri Hydroelectric complex, expanding the productive capacity of the government's iron-ore mines, building a railroad to connect Ciudad Guayana with central Venezuela and the Caribbean, exploitation of recently discovered bauxite deposits, and a slate of other projects ranging from a tractor factory to a man-made forest of 180,000 Caribbean pines.

State planners expect these developments to generate 56,700 jobs in the Guayana region alone, and Ciudad Guayana is already straining to accommodate the tens of thousands of construction workers, engineers, planners, technicians and outside consultants who have come to the area in recent years. With an annual growth rate now calculated at 11.7 percent, Ciudad Guayana's population will soar from 226,000 in 1976 to some 400,000 by 1980.

New Steel Plant

One of the country's highest-priority industrial projects is the expansion of the state-owned steel manufacturing complex in Ciudad Guayana. Siderurgica del Orinoco, C.A., known by its Spanish initials as Sidor, Sidor currently operates one facility with a capacity of 1.2 million metric tons of liquid steel per annum, and employs a labor force of 12,500. Expansion plans involve the erection of a new plant alongside the old facility, which will raise the company's total liquid steel output to nearly 5 million metric tons per year. Total projected cost for the Sidor expansion has been set at 15.2 billion bolivars, of which 8.4 billion bolivars have already been invested. (Local economic analysts, however, expect cost overruns to vary between 10 and 30 percent.)

The new Sidor plant will utilize a blast reduction system, electric furnaces and continuous casting. In an interview, the president of Sidor, Igar Marshall, noted that the use of this system rather than blast furnaces with oxygen converters means that the Ciudad Guayana works will not be dependent on imported coke and can therefore be entirely self-sufficient. The plant process iron ore brought from rich deposits into pellets, using electricity supplied by the Guri system and water from the Orinoco river. The Sidor executive, who holds a degree in mechanical engineering from Columbia University, New York, and the Universidad Central de Venezuela, noted that at 800 million bolivars will be spent on pollution-control equipment at the new installation.

With some 13,000 construction workers currently employed on the expansion—called Plan work—is reported, moving

ahead on schedule. In a recent interview with a Caracas newspaper, however, the steel company president said that there had been a six-month delay on the pellet plant, a key element in the steelworks and the first unit begun under the plan. He attributed the slowdown principally to a scarcity of construction materials. Mr. Marshall added, though, that construction of the other components in the giant steel complex "is being carried out within the time limits set in each contract."

In contrast, Sidor's older facilities—those which are currently producing steel for the national market—have experienced substantial difficulties. A recent press report cited steel industry sources as saying that the state company accumulated losses of around 400 million bolivars last year, a poor indicator after several years of modest but promising profits from the firm.

A spokesman for the company confirmed that Sidor was in the red in 1977, but called the 400-million bolivar figure "exaggerated."

Local analysts say that although Sidor is undoubtedly a sound na-

tional project, the government must overcome numerous problems in technical, service and specialized manpower areas if Plan IV is to be a success.

Electrificaci6n del Caroni, C.A. (Edelca), is another state-owned company responsible for carrying out one of the key projects in Guayana. Edelca now administers the Guri Hydroelectric complex on the Caroni River that was started in 1963. It will spend over 10.5 billion bolivars on raising the dam's generating capacity from the present level of 2.2 million kilowatts to 9 million kilowatts by the end of the next decade. Enlarging the Guri complex will involve constructing a new dam alongside the present one and adding 10 generating units of 610 megawatts each alongside the 10 smaller units now in operation. Not only does the Guri supply the extensive power needs of the Guayana complex, but it also sends electricity north to Caracas and other Venezuelan cities.

Three aluminum projects are currently under way in the Guayana region. Alcan (Aluminio del Car-

ni, S.A.), set up in 1961, is owned jointly by the CVG and Reynolds International. The company has been producing aluminum since 1967 and is now completing the final stage of its expansion. This involves bringing capacity from 50,000 metric tons of aluminum per year to the present installed capacity of 124,000 metric tons. The last stage cost 678 million bolivars. Alcan, which exports about half of its production, has seen sales rise steadily over the last three years from 206 million bolivars in 1975 to 292 million bolivars last year. Strikes affected the company's 1977 output, cutting it to 48,000 metric tons, down slightly from the previous year. A company executive said that he expects aluminum production to reach 90,000 tons for 1978 as new conversion units become operational.

Industria Venezolana de Aluminio (Venalum) is the second aluminum facility in the Guayana industrial area. Construction began on the Venalum plant in 1975 and the first aluminum cells are slated to go into operation later this year. Venalum is 80 percent owned by the CVG, and 20 percent is held by a group of Japanese companies. It will have a full production capacity of 280,000 metric tons a year on completion. Total project costs are estimated at 2.2 billion bolivars and 1.3 billion bolivars have already been spent. Reynolds International of Richmond, Virginia, which designed the plant, is overseeing project development and has signed a five-year operating-management contract with the company's owners. After that period, the plant will be wholly run by Venezuelan personnel and executives. Under a long-term agreement, Venalum will sell 60 percent of its output to Japanese clients.

Working in conjunction with the aluminum plants will be a one-million metric ton-per-year alumina factory called Interalumina. This facility, with CVG holding 85 percent equity and the remainder divided equally between the Swiss aluminum manufacturer Alusuisse and Billiton of the Netherlands, a subsidiary of Royal Dutch/Shell, will cost around 3 billion bolivars. It will refine bauxite into white alumina powder that will then be fed to the aluminum producing cells of Alcan and Venalum. The plant is expected to be in full operation by 1982.

In addition to the fortuitous location of high-grade iron-ore depo-

sits and hydroelectric power close to the Guayana industrial complex, Venezuelan geologists last year gave clear confirmation to the existence of a vast deposit of bauxite in the same part of the country. CVG experts estimate that the deposit at Los Pijiguas contains a minimum of 506 million tons of bauxite. Plans call for the site to produce three million metric tons a year by 1982, and bauxite ore taken from Los Pijiguas will be shipped by

barges down the Orinoco to Interalumina's dock, where it will be processed into alumina powder.

Another important unit in the Guayana complex is Ferrominera Orinoco, C.A., a state-owned enterprise that has managed all facets of iron-ore extraction in the region since 1976. Ferrominera took over facilities of U.S. Steel and Bethlehem Steel that were nationalized at the beginning of 1975. Its results so far have been excellent, although

contractions in world steel production have cut the company's foreign exports in recent years. A company official said that Ferrominera produced 12.7 million metric tons of iron ore last year, earning a net profit of 109 million bolivars on sales of just over 1 billion bolivars.

Iron-ore production this year is expected to reach 12 to 13 million tons, but exports will be reduced as Sidor's new installations become operative. Ferrominera will then

devote most of its sales to the state steel manufacturer.

Ferrominera officials point out that since nationalization of the iron ore industry, the government has earned 2.2 billion bolivars from iron-ore sales of 49 million metric tons between 1975 and 1977. In contrast, while U.S. companies were running the industry in 1972-74, the Venezuelans received only 1.5 billion bolivars from sales of 65 million metric tons.

—J.M.

Aiding Small Business

CARACAS (IHT)—In concurrence with Venezuela's major industrial projects, most of which are government-owned, the administration of President Carlos Andres Perez has made available hundreds of millions of bolivars in low-interest loans to light and medium industry in the private sector, as well as to small businesses. The government has elaborated a policy of encouraging new and existing industrial plants to set up shop or relocate in rural areas, thus easing conditions in overcrowded industrial zones in the large cities and offering new jobs to rural Venezuelans.

In order to encourage moves to the hinterlands, the government offers tax incentives and long-term credits from a variety of sources, such as the Venezuelan Development Corp. (Corporaci6n Venezolana de Fomento), the Industrial Credit Fund (Fondo de Credito Industrial) and Corpoiindustria—the Corporation for the Development of Small and Medium Industry.

Project Applications

Last year, for example, Corpoiindustria approved more than 2,300 project applications for small and medium-sized loans totaling 769 million bolivars. Government planners say that these projects, if carried out, will generate more than 11,000 jobs. Projects vary from the purchase of a car to be used as a taxi, to the construction of factories for making plastic products, shoes, textile goods, processed foods or light machinery.

Thousands of Venezuelans have received loans from Corpoiindustria in order to buy cars or passenger vans that are used as taxis or *por puestos*. A *por puesto* is a car or van carrying several passengers along a regular route, either within a city or between different parts of the country. They are a popular alternative to the capital's crowded buses and they take their name from the fact that each person pays for his place (*puesto*).

—J.M.

IVIC: An Independent 'Fluke'

CARACAS (IHT)—In a country where politicians regularly meddle in the affairs of government agencies, the Venezuelan Institute of Scientific Research (IVIC) has managed—almost miraculously—to maintain its independence.

IVIC, founded during the 1950s by a Venezuelan scientist named Humberto Fernandez Morera, is a government-owned research and engineering center whose work embraces physics, chemistry, biology, mathematics, experimental medicine, anthropology and other areas. The center performs sophisticated research activities for a nation urgently in need of experienced workers in the pure and applied sciences.

IVIC's independent nature is seen as a fluke in Venezuela, where friendship with a politician or influential businessman often provides a passport to jobs in any number of government agencies in respect of the applicant's qualifications. At the research institute—the only one of its kind in Venezuela and one of the finest in Latin America—scientists and graduate students (now numbering around 300) are hired on purely academic criteria, with no interference from politicians or businessmen who want to find a prestigious job for someone's brother-in-law.

IVIC's continued success as a high-quality research institute is all the more surprising since it was set up during the regime of the country's last military dictator, Gen. Marcos Perez Jimenez. When Gen. Perez Jimenez was forced to flee the country in 1958, many of his projects—whether important to the country or not—were scrapped by subsequent governments interested in erasing all institutional traces of the dictator. However, although a product of his era, IVIC still remains a viable organization with its own budget and its own corps of scientists—both Venezuelan and foreign.

Funding Threat

Nonetheless, IVIC is now facing a situation that will seriously limit its activities this year. In the face of dwindling petroleum revenues, President Carlos Andres Perez earlier this year ordered across-the-board budget reductions of 7 percent, which have cut sharply into IVIC's spending program. IVIC director Dr. Luis Manuel Carbonell indicated in an interview published recently that the budget reduction (amounting to about 5 million bolivars—\$1.16 million) would produce a slowdown in work on priority projects "that in the long run will turn out to be very dangerous for the country."

These cuts were made in IVIC's budget despite the Perez administration's often repeated promise to

develop domestic facilities for research and technology, areas in which Venezuela is sadly deficient.

Dr. Pedro Bolasaitis, director of the Center for Engineering Research and Development at IVIC, complained in another newspaper article: "When the budget cuts were made, Finance Minister Luis Jose Silva Luongo told the press that Venezuela's development programs had not been affected. But if maintaining research facilities and graduate education programs like the ones we have here at IVIC aren't part of the national development scheme, then the policy behind the scheme is critically short-sighted."

"A vacuum exists here in the poli-

tics' concepts of just what research and development are," Dr. Bolasaitis continued, "and what their importance is to the country. The only thing they know are the big, costly, publicly visible 20-billion-bolivar projects that they purchase abroad. But they are thwarting the nation's development base before it even gets off the ground."

"In IVIC, which is an institution that operates reasonably efficiently, salaries account for approximately 68 percent of the total budget. The remaining 32 percent covers our operating costs. Therefore, a 7-percent budget cut has effectively killed one-quarter of our operating budget. IVIC is hurting."

—J.M.

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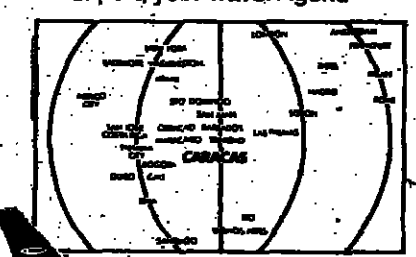
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Stunted Education System Meets Obligations With Difficulty

CARACAS (IHT)—Venezuela's public education system, still in tatters despite massive infusions of government funds since 1974, is currently facing the challenge of providing the country with trained manpower.

A rapidly expanding economy and a spate of complex government programs have created tens of thousands of new jobs requiring various types of formal training. Great pressures are also being generated in primary and secondary schools by a burgeoning student population. Over the past several years Venezuela's public schools, universities and technical institutes have shown themselves incapable of meeting the new obligations of petroleum wealth. The challenges have been enormous for a developing country, and many of the slow-downs and fiascos occurring during the course of the new development plan are directly attributable to a desperate shortage of trained human resources.

While positive steps are being taken to remedy this problem, it remains painfully clear that domestic technical and professional training programs are seriously deficient. Moreover, if today's children are educated in a second or third-rate system, they hardly will be prepared to play a useful role in the new Venezuela.

Official statistics, which put Venezuela's population at around 13 million, indicate that over half the country's inhabitants are under 20 years of age. In the 5-to-14-year-old group alone there are 3.38 million youngsters, or about 26 percent of all Venezuelans. Total student enrollment has jumped from 2.1 million in 1969-70 to 3.5 million for the 1976-77 school year. Of those currently enrolled, about 71 percent are at primary and pre-school levels, 27 percent in secondary schools and 7 percent in universities and other institutes for advanced education.

Public education in Venezuela had been stunted for most of this century by dictators who had no interest in developing an educated and potentially disruptive student class. The school system has improved slowly under the democratic governments that have ruled since 1958, yet the nation still lacks schools and qualified teachers in spite of heavy spending aimed at overcoming deficiencies. Existing buildings are often crowded and

run-down, and teachers at lower levels are sadly underprepared. Remuneration for all public school teachers is low in comparison to that for other professions requiring advanced training.

Literacy Rate

Although Venezuela's literacy rate is relatively high in comparison to many developing countries (76 percent for persons over 15 years of age and 95 percent for those in the 10-19 age-group), the dropout rate among primary school children is high. The constitution guarantees free education through the university level, but this ideal is out of reach for most of the nation's poor. Private education, which last year accounted for 450,000 students out of the nationwide student population of 3.5 million, has not expanded to keep pace with the country's needs. Wealthy families have traditionally educated their offspring in expensive local institutions or at schools abroad, and those who can afford the cost continue to send their children to private schools here.

There are 35 universities and schools for advanced training—teachers' colleges, polytechnical institutes, and such—but only five universities are private. State universities have improved in recent years, but standards in many subjects are still far below those of industrialized countries.

At Venezuela's most important university center, the Universidad Central de Venezuela (UCV) in Caracas, facilities are taxed to the limit with over 50,000 students enrolled. The UCV is frequently crippled by strikes, riots or confrontations between students and authorities. A good many teachers work only part-time, dedicating most of their energies to better-paying jobs outside the school. Political parties use the UCV as a training ground for future politicians and actively recruit young party members from the student body. Many feel that the heavy stress on political activity at the country's largest university has seriously compromised its educational function, and the government has been unable to intervene directly in any positive way. The Perez administration has sought to correct the situation, though, by indirect attacks. It has spent heavily on strengthening

universities other than the UCV, especially in the provinces, and has sought to keep the central university's ravenous appetite for funds under control.

The Perez government's general approach towards public education and the supplying of both public and private sectors with human resources so urgently needed today has taken the shape of a four-pronged program: improving and expanding the public system at all levels; establishing a giant scholarship plan for study here and abroad; widespread technical training through specialized centers, and selective immigration—plus recruitment—aimed at procuring skilled manpower as quickly as possible.

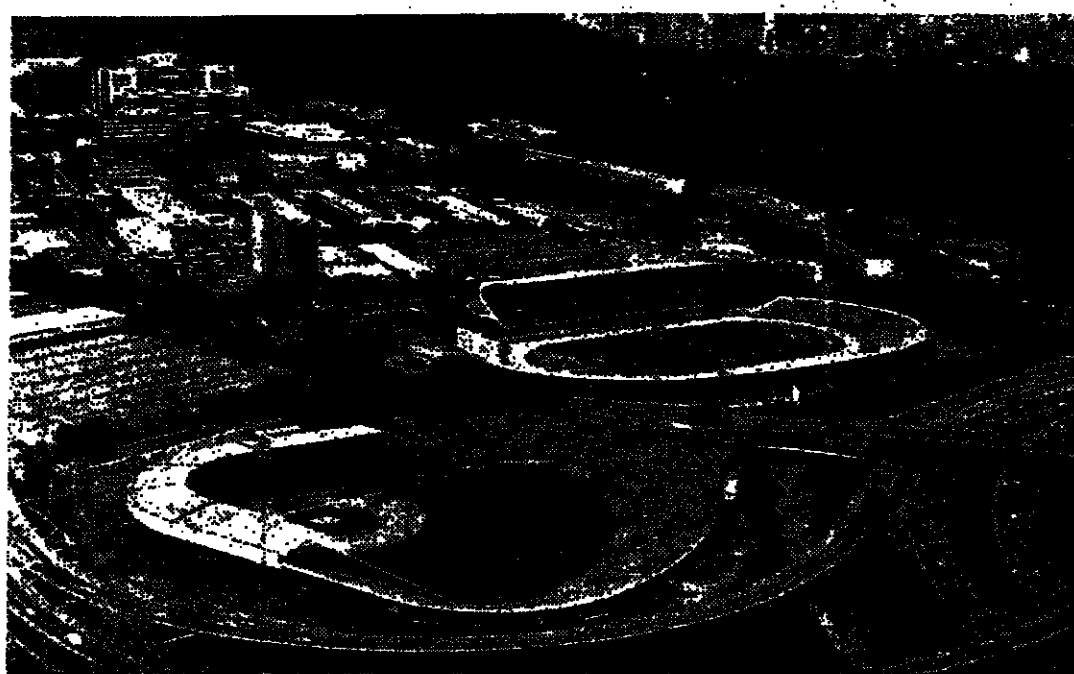
Spending

Spending for education has absorbed an important share of the enlarged, national government budgets each year since 1974. Last year the sector received a record high of 7.8 billion bolivars (\$1.8 billion, or \$514 per student) as compared to 2.8 billion bolivars in 1973 (\$241 per student). The number of school buildings went from 11,900 in 1973 to 13,000 last year, while the number of teachers during the same period grew from 113,000 to 147,000.

These outlays were obviously helpful, but Venezuela still has a long way to go in placing all of the country's school-age children in adequate facilities and providing them with standard learning materials. Even more important, more and better-trained teachers are urgently needed, but the formation of a highly professional corps of educators will require years.

In order to satisfy dramatically increased demand for the college and graduate-level professional, the government set up an imaginative scholarship plan in 1974 called the Gran Mariscal de Ayacucho Program. The program seeks to give students from lower-income groups an opportunity to receive graduate or undergraduate training here or abroad.

As of last year the government had granted 15,064 Ayacucho scholarships for study in a wide range of subjects, especially the applied sciences, engineering and technical courses. The government, which says that only 13 percent of all scholarship-holders have dropped out, pays for all educa-



Central University of Venezuela. Sports facilities are in the foreground.

tional expenses plus travel costs. About 40 percent of these scholars are studying in Venezuela, while 30 percent are in the United States and 8 percent in Britain. Venezuelans attached to the program are enrolled in universities and technical schools in 31 foreign countries. Last year, 432 million bolivars were spent on the program.

It is difficult to assess the program's effectiveness up to now since relatively few students have completed undergraduate courses. Some critics say that politics is vitiating the program's effectiveness, that individuals with political connections can easily get scholarships and often use government funds to "take vacations" overseas. The government, though, states that scholarship grants are made solely on the basis of educational potential and financial need, with special attention given to applicants from rural areas. One foreign diplomat who works closely with the Ayacucho students made the following comment: "Sure there's a lot of waste involved, and people with friends in the government have little trouble finding a grant for their

children. But even if only 10 percent of students (in the program) benefit from exposure to foreign universities, the country will have come out ahead."

The two other areas of human resources receiving government attention are technical training in the skilled trades and the search for professionals and craftsmen abroad. A government body known as the Instituto Nacional de Cooperación Educativa (INCE) provides classes and on-the-job training to men and women in a range of technical skills required in agriculture, industry, construction and general commerce. In 1977 INCE, which is supported by government outlays plus obligatory payments by private business, gave courses to 448,000 persons in Venezuela and sent 5,000 army recruits to Spain for specialized training. INCE courses cover carpentry, welding, auto mechanics, plumbing, agricultural fields, metalworking, driving and repairing heavy machinery as well as a host of other skilled and semi-skilled jobs now in great demand.

Government agencies in need of

particular specialists—for example civil engineers or electricians—sometimes send recruiters to Europe, the United States and other Latin American states in order to find qualified personnel as fast as possible. (In some cases, major government projects have come to a halt because 50 skilled bricklayers or a dozen plumbers could not be found in the country at the right time.)

The Perez administration is also implementing a program of selective immigration in conjunction with the Inter-governmental Committee on European Migrations. Under this plan, the government and the private sector identify critical skills of specific jobs that need to be filled, and applicants are sought abroad. Facilities for interviews, documentation, transport, reception in Venezuela, housing and placement are made available to immigrants. Last year the government's selective immigration commission approved applications for 5,855 foreigners whose skills were needed here.

Even without formal recruiting procedures, foreigners have flocked

to Venezuela in recent years, lured by the country's political stability and boom atmosphere. Thousands of professional and skilled workers have left behind political and economic problems in countries like Chile, Argentina and Uruguay to come to Venezuela.

The immigration trends here since the early 1970s have created a number of problems, however. Local labor unions and professional societies often resent the inflow of qualified persons from other countries since the latter will generally work for less than their Venezuelan counterparts and, sometimes, are not integrated into existing labor and professional groups.

The government, asked by some sectors to ease immigration laws and visa requirements as a general solution to manpower shortages, does not want to see the country flooded with even more citizens from neighboring Colombia. About one million Colombians already live here illegally, eagerly taking jobs that pay many times what they could earn at home. In addition, some government officials are fearful that exiled leftists from countries like Argentina and Chile could cause political problems here if permitted to enter in sufficient numbers. Besides, even though partially and wholly assimilated Italians, Portuguese, Spaniards, and Colombians make up an important part of the nation's human resource bank, they are often disliked by the Venezuelans with whom they compete on the national job market.

Much like the United States during the periods of heavy immigration in the early part of this century, Venezuela is experiencing the pains of accepting and assimilating large numbers of foreigners. Perhaps the problem is made even more difficult here since many Venezuelans view foreigners—whether temporary consultants or workers seeking permanent citizenship—as outsiders who are trying to take advantage of the country's wealth. At the same time, the arrival of qualified people from other countries poses a threat to a nation suffering from feelings of inferiority stemming from its own deficiencies in education and human resources.

Health and social welfare have also received heavy government attention since 1974, with emphasis laid on disease control, elimination of malnutrition among pregnant women, nursing mothers and

newborn children, medical care for the disenfranchised in slums and rural areas, and extension of health and pension benefits under the IVSS, the Venezuelan Social Security Institute.

Programs to bring free milk and high-protein foods to pregnant women and neonates, and to vaccinate children and adults against a variety of diseases have achieved very good results. The infant mortality rate, which stood at 53 for every 1,000 births in 1973, fell to 42.8 per 1,000 last year, a reduction of more than 19 percent. (The country's overall mortality rate dropped from 6.8 percent in 1973 to 6 percent last year, and the average Venezuelan's life expectancy went from 64.7 years to 66.4 years in the same time.)

Venezuela's social security system, which offers both free health care and old-age and disability pensions to subscribers, now has 3.6 million beneficiaries, up significantly from 2.6 million four years ago. The Perez administration straightened out much of the confusion reigning in the IVSS pension system, and extended benefits to the aged even if they were not formerly listed on social security rolls.

Improvements have undoubtedly been made in the country's health and social welfare system since 1974, but tremendous deficiencies remain. Rural areas are often without doctors and clinics. Municipal hospitals in the large cities offer free service, but are terribly overcrowded and are short of professional help, basic equipment and medications. Social Security payments are small, and few Venezuelans can live exclusively on old-age or disability checks.

Public health and welfare remain painfully inadequate in Venezuela. Private medical care generally offers the best service available, but costs are as great or greater than in the United States. Only families with middle and upper-middle level incomes can afford treatment in private clinics.

Besides continuing to pump large sums of money into public health, the government has taken some other steps. It has set price controls on most drugs and medicines, attempted to regulate prices for services at private clinics and obliged newly graduated physicians to spend time working in depressed rural areas.

—J.M.

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For Shantytown Residents, Petroleum Boom Never Arrived

CARACAS (IHT)—For the people living in a shantytown called Caballo del Mocho, Venezuela's petroleum boom has never arrived.

Caballo Del Mocho, which translates into "the Cripple's Horse," is a poverty pocket located on the outskirts of this wealthy, ostentatious capital. Like scores of other shantytowns that house a large share of Caracas' three million inhabitants, this section of the

city bears a picturesque name. Little else in Caballo del Mocho is picturesque.

Families here live in a collection of ramshackle, unpainted houses of wood and tin built over dirt floors. Many of the homes were erected by the families living in them—campesinos who fled rural Venezuelan poverty for the promise of steady work in the capital. Often one sees a small vegetable patch alongside a

shack and chickens scratching in the littered yards.

The shanties are spread over several steep hills and are frequently damaged or destroyed by mudslides during the rainy season. During a recent downpour, the tiny dirt road passing through the sector was converted into a river of reddish-brown mud, garbage and human waste.

The barrio—or neighborhood—has no sewer system, no telephones,

no mail service, no schools or health centers. Water arrives irregularly, sometimes by tank truck, sometimes through tiny pipes installed by the residents themselves. Electricity reaches several homes through pirate wires hooked up to a main power line that passes nearby.

Garbage is thrown into ravines, where it sometimes accumulates for months, putrefying under the tropical sun.

The sick must travel miles to a

public hospital that is chronically short of beds and professional help. Medication, cotton and alcohol. They may stand in line all day waiting to be attended by the overworked staff.

Indigence is not new to Venezuela. But its widespread persistence in this country—often called the Saudi Arabia of Latin America—is all the more striking when one is exposed to the lavish life-styles common to Venezuela's upper income groups.

Not far from the "marginal areas" of Caracas—as the government here calls slums—are giant shopping centers offering a large variety of imported luxury goods. Well-heeled Venezuelans think little of purchasing homes or apartments costing upwards of \$250,000, or imported Mercedes-Benz cars priced at around \$40,000, or second apartments in Florida or New York City.

But the impression of affluence is misleading, for perhaps half the residents of Caracas live in squalid ranchos (slum homes) or other substandard housing. The red brick slums that surround the modern city are a constant, painful reminder of Venezuela's unconquered misery.

The problem has been the focus of many government programs, but its sheer magnitude—complicated by a continued flight of people from rural to urban communities—dwarfs official efforts. As proprietor of Latin America's largest and most efficient oil industry, the Venezuelan government has earned over \$40 billion between 1974 and the end of 1977, mostly from petroleum exports.

Since taking power in 1974, the administration of President Carlos Andrés Pérez has spent billions of petrodollars on programs for health, education, slum improvement, low-income housing and social services, a sum unmatched in Venezuela's history.

The Pérez government has given high priority to services for the poor and has improved many slum areas by installing water lines, sewers and electric power lines, erecting schools and housing development and assigning police and sanitation teams.

In spite of these huge spending programs, though, life has changed only marginally for most of the country's poor. For over three years, Evaristo Vasquez has been living in a complex of government-built plasterboard barracks in Petare, on the edge of Caracas. He and his family of eight were relocated to this "temporary housing" after the rains washed out their rancho. The Vasquez family has been waiting for a place in a nearby government building, but no one knows when construction will be completed.

"If we're lucky, we'll get a place in the new building," he said. "All of us are waiting here." In Mr. Vasquez's neighborhood, conditions are better than in Caballo del Mocho. The government housing units are, at least, plasterboard affairs built in rows, but they have cement floors and are plugged into a regular power line. Water trucks and garbage details pass with some regularity and the sector runs a small health clinic and school nearby. In addition, the sector is much closer to the center of Caracas, to large food stores, shops

and jobs, and residents therefore are less dependent on the vagaries of public transport.

Mr. Vasquez is in his thirties, earns 33 bolivars a day (\$7.73) at a milk bottling plant and has been able to buy a television, refrigerator, electric fan, and other small appliances. He noted, however, that the one-story complex where he lives has no telephone, no recreation areas for children and only one outhouse for every 10 families.

Although the government says that dislocated families may receive low-cost apartments on the basis of need and waiting time, opponents of the Pérez administration assert that housing assignments are often made through party connections. Elba Rincon, a young worker with the Movement Towards Socialism party (MAS) who spends much of her time in the city's slums, said that members of the government party, Democratic Action, almost always receive places as new government housing is completed. People with other party affiliations, she said, have a much harder time in finding new homes.

On the other side of Caracas, in a hillside section of the city called La Vega, the government has made an effort to remodel a slum area instead of bulldozing entire neighborhoods and erecting high-rise apartment houses.

Martin Bilbao, an energetic, 29-year-old architect working on the La Vega project, explained that the government had already remodeled over 600 ranchos out of the approximately 20,000 in the area. The object was that the community's social fabric would be preserved and improved if families living in the area were offered a refurbished

home in their own, integrated neighborhood setting.

"We go to a rancho and ask the people how many persons are living there, what things do they need in their home," he said. The government agency carrying out the work, in this case the Centro Simon Bolívar, then finds the family temporary lodging, does the necessary work, and returns the home to the family. Each remodeling job costs between \$9,000 and \$17,000, and residents receive the service free of charge.

Approaching La Vega today, a visitor sees row upon row of gaily painted homes with Mediterranean-style facades. The one and two-story units are covered with attractive stone walls. "Each family is treated as an individual problem, an individual case," Mr. Bilbao said. Besides refurbishing the outside of each home, the government also installs plumbing, lays water and sewer lines, supplies electricity and builds schools, recreation centers and community shopping areas.

Impetus for La Vega's transformation, which was begun by presidential candidate Diego Arias while he was governor of the federal district four years ago, is now waning. The project has drawn fire from politicians within the Pérez government for being too flashy and costly. Most Venezuelan leaders prefer the traditional approach of building high-rise units that can accommodate more families.

Although the La Vega plan received considerable attention here at its outset, it is clear it will probably never obtain sufficient funding to make a real dent in the 19,000 slums yet to be remodeled.

U.S. Life-Style Invades Native Culture

CARACAS (IHT)—Cultural identity in Venezuela has undergone tremendous changes in the last 30 years. For one thing, the country has experienced a demographic transformation of staggering proportions: a predominantly rural, agricultural society has shifted into the role of an urban, population rapidly moving toward industrialization. While roughly three-quarters of the country's population lived in rural zones during the 1940s and 1950s, only about a quarter of all Venezuelans are now located outside the major cities.

Almost as important has been the impact of foreign immigrants, waves of Spanish, Italians, Portuguese and others who began coming to Venezuela around the time of World War II. In addition, the criollo population—native Spanish Americans—has swelled with the arrival of newcomers from the rest of South America and the Caribbean, many of them lured to the country by the petroleum boom.

Certainly the most significant cultural shift has occurred as a result of the prevalence of the U.S. life-style on this South American society. Venezuela's proximity to the United States, the existence of a relatively small but influential community of North Americans working in the oil industry, and the country's great propensity for imports have brought U.S. culture here en masse.

Workers at oil camps in the Venezuelan outback inhabit carefully-groomed villages that resemble great, little towns that might be found almost anywhere in the United States.

Much to the dismay of some Spanish speakers, English words and Americanisms have become commonplace in Venezuela. A friend is called *broder* (brother), whiskey is *guiski*, a factory guard is a *guchiman* (watchman) and a gra-



A folk dancer wearing the mask of a devil.

pefruit is a *gray-fu*. Other examples abound.

Being importers at heart, Venezuelans have not neglected to bring in quantities of consumer items, habits and phrases from countries such as France, Italy and England. But the United States remains the undisputed champion of cultural domination.

In some ways, Venezuela's social structure was far more vulnerable to cultural invasion from the north than other Latin countries. Venezuela lacked the indelible stamp left behind by advanced cultures like the Inca, the Maya and the Aztec in other parts of Latin America. (In spite of its proximity to the United States and a regular inflow of U.S. tourists, Mexicans by all appearances manage to retain a clearer sense of national identity. Perhaps this is due to their Aztec heritage, a stronger sense of nationalism or simply to abundant tourism posters touting mariachis, ancient churches and tortilla vendors.)

Venezuelans do indeed have their own discrete Latin culture, although first-time visitors would be

hard put to identify this. Like all other Spanish-speaking nations, this country possesses its own particular set of words, accents and expressions. Venezuela has produced some excellent novelists, artists, poets. In the last century the country's *Liberador*, Simon Bolívar, not only led Venezuela's revolution against the Spanish Crown, but also carried his spirit and fighting men to several neighboring countries.

The music, dances, foods and customs of Venezuela share elements with other Latin states, but are clearly their own.

In the Venezuelan countryside, one can still see part of a simple, agricultural society relatively untouched by immigration and the invasion of U.S. life-styles. Campesinos, or peasants, wearing khaki workclothes, sandals and battered straw hats lead burros alongside superhighways cutting through the sweltering savanna or the precipitous slopes of the Andes. Their lives generally revolve around an open shack near a small vegetable patch, some scrawny livestock and

a few days of labor at a nearby hacienda.

In Caracas, though, life is much the same as in any large, modern city of Europe or the United States. New buildings rise on virtually every block of downtown Caracas, pushing aside old, colonial homes with red tile roofs and fancy iron window grates. Everywhere one hears the accents of Italians, Portuguese and Spaniards—immigrants criticized by many Venezuelans but nonetheless accepted because of their almost infinite capacity for hard work. Here and in other cities the sons and daughters of illiterate campesinos learn to perform jobs in auto assembly plants, oil refineries, banks, petrochemical installations and a host of other enterprises.

Slowly but steadily the lazy, rural personality of Venezuela is being erased. The industrialization of Venezuela—and the modernization of its people—are in motion.

—J.M.

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Nationalization of Oil Sector Has Been a Resounding Success

(Continued from Page 1)

Petroleo) and the local Mobil subsidiary.

Local subsidiaries of companies that were taken over in 1976, like Exxon, Royal Dutch Shell, Mobil, Gulf, Arco and several others, received aggregate compensation from the government of President Carlos Andres Perez that totaled 4.34 billion bolivars. Part of this was paid in cash and the remainder in government bonds maturing between 1977 and 1981, with an annual interest rate of 6 percent. Compensation was based on the net book value of the assets of each foreign company, as computed by the government. This figure did not take into account replacement costs, which are estimated to be

four to five times more than the net book value figure.

In contrast to disastrous state takeovers of foreign holdings in other parts of Latin America, Venezuela's nationalization of what was probably the largest single block of foreign capital in the region has been a resounding success. The industry—with more than 21,000 wells (around 12,000 of which are active producers), a dozen refineries, 25,223 employees and annual sales of around \$9 billion—is one of the most complicated in the world.

It has been managed entirely by Venezuelan technocrats since 1976 and has remained free of the political interference that has weakened or destroyed the effectiveness of other Venezuelan state enterprises.

Venezuelan oil executives, who have managed the giant industry with few hitches, were not new to the job. Most of the industry's top personnel had worked for many years with foreign oil companies and had held responsible posts prior to nationalization. Others joined Petroleos de Venezuela and its affiliates after gaining considerable ex-

perience in the private sector both here and abroad.

Although the foreign companies ousted in 1976 objected to some of the nationalization terms, they generally realized that the actual takeover was the logical culmination of a process begun in the 1940s, which gave the state increasing control over the affairs of the industry here.

And despite grumbling from some foreign executives, it is quite clear that the international oil companies earned a healthy return on their investments in Venezuela over the years. In fact, nationalization did not mean estrangement between the government and most foreign oil companies.

... Despite grumbling from some foreign executives, it is quite clear that the international oil companies earned a healthy return on their investments in Venezuela over the years. In fact, nationalization did not mean estrangement between the government and most foreign oil companies.

front a number of serious challenges in the years to come. The most important of these are:

- The need to find substantial new crude oil deposits and find ways of economically using vast reserves of nonconventional petroleum in the Orinoco Heavy Oil Belt.

- Maintaining a satisfactory cash flow to Petroleos de Venezuela so that costly new investments in exploration, production, refining, research and human resources can be made. Without these, the Venezuelan oil industry will become obsolete within two decades.

- Overcoming losses in local marketing. Under the Perez administration's current anti-inflation policy, gasoline for autos is sold at subsidized prices, about 15 cents per gallon for regular and double that for high octane. As a result, gasoline sales on the domestic market present consistent losses. At the same time, cheap gasoline encourages an unhealthy and unrealistic growth in highway transport.

- Insuring that the nationalized oil industry stays free of political interference. While this has been true to a high degree, no one can say what will happen when future governments find that they need more money and are tempted to tap the lucrative petroleum sector.

According to government statistics, Venezuela's conventional crude oil reserves were 17.9 billion barrels at the end of last year, slightly less than 20 years of available production at current rates. Most of these crude oils consist of heavy-type crudes. While this is fine for producing fuel oil and other residual products, the country needs to boost its reserves of lighter crudes in order to refine greater quantities of gasoline and other light products which bring better prices.

Investments Needed

In a recent speech, the director of finance of Petroleos de Venezuela, Edgar Leal, said that the national petroleum industry would require investment of about \$20 billion over the next 10 to 12 years in order to guarantee its continued efficiency and profitability. (Production costs rise as a country's oil deposits become depleted. That is, it is cheaper and easier to pump oil from new deposits than from fields that have been producing oil for 20 or 30 years.) He said that about \$3

billion would be needed for exploration, \$12 billion for production, \$3 billion for refining and other activities, and \$2 billion would probably be used for maintenance, research and other expenses. He asserted that the state oil monopoly expected to secure most of these funds through its own ability to generate earnings. Observers here, however, believe that the company will eventually need to seek capital in the form of foreign credits.

Petroleos de Venezuela is already moving ahead with a major drive to find new oil deposits both on and offshore. Later this year the company will begin offshore exploration in three areas. Budgets for exploration have been on the rise in recent years. While the firm spent a total of 900 million bolivars for exploratory activities between 1976-78, outlays in exploration this year will reach an all-time high of 1 billion bolivars.

In refining, Petroleos is projecting expenditures of around 5 billion bolivars in order to alter refining patterns at its principal units so that more heavy-weight crudes can be processed.

In addition to these projects, the industry is working on the gradual development of a huge reserve of high-viscosity crude oil lying to the north of the Orinoco River. This deposit, known as the Orinoco Heavy Oil Belt, contains reserves estimated at a minimum of 700 billion barrels.

Although the belt represents one of the largest hydrocarbon deposits on earth, it is not currently able to yield large quantities of commercially useful oil. The oil found there generally resembles thick, black molasses and contains considerable quantities of sulfur and metallic elements.

Some work has been done by the Venezuelan and foreign oil companies in solving production and refining problems associated with the special types of oil found in the Orinoco Belt. But the government has been reluctant to invest heavily in the area, maintaining that international oil prices must reach higher levels before Orinoco crude will become profitable.

There is no doubt, however, that once technological difficulties are overcome, the Orinoco reserves will be a long-term source of revenue for Venezuela and will guarantee that the country remains an important oil producer for many years to come.

—J.M.

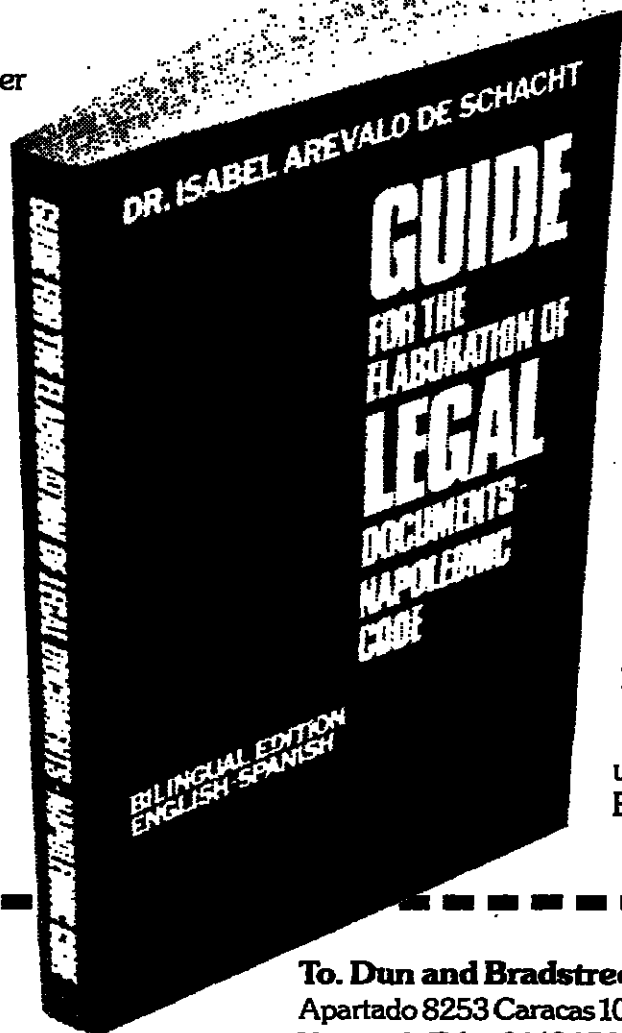
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Petrochemicals

Reforming a White Elephant

CARACAS (IHT)—Venezuela's petrochemical industry, one of the biggest white elephants in the country's history, is on the road to becoming a useful sector of the economy.

Plagued during the past few years by major equipment failures, personnel shortages, strikes, low production and constant financial losses, the petrochemical sector—controlled principally by the Venezuelan government—is currently undergoing a full-scale reorganization. This reorganization is being carried out under the aegis of the state oil company, Petroleos de Venezuela, the firm that has run the country's giant oil industry efficiently and profitably since all foreign petroleum concessions were nationalized at the beginning of 1976.

In an interview published here recently, Renato Urdaneta, president of the government's new petrochemical company, Repetrol, asserted that a number of reforms were already under way. These include an infusion of new executive talent, dismissal of some petrochemical workers and use of foreign technical help in putting the government's petrochemical projects onstream. Mr. Urdaneta, formerly manager of Exxon's giant oil refinery at Amay, pointed out, however, that positive results "will not be apparent for at least two years."

The Target

The target of Mr. Urdaneta's reforms is the industrial complex known as the Tablazo complex, which has cost a minimum of 2 billion bolivars (\$466 million). Venezuela's two principal petrochemical complexes are located at Moron, near the Caribbean in central Venezuela, and El Tablazo, on Lake Maracaibo in the west. The sites include major facilities, which are wholly-owned by the Venezuelan government, and a spate of smaller companies jointly owned by private investors and the state. This complex was built to provide the country with a broad range of products while at the same time creating jobs, using readily available raw materials and saving on items that would otherwise be imported. Some of the installations were designed to provide exports once domestic demand for their products was satisfied.

The El Tablazo complex in Zulia state, an impressive collection of towers, pipes, chimneys and plants that has cost the Venezuelan Treasury more than one billion bolivars, is a prime example of Venezuela's

petrochemical ills. Although its basic production units have been completed for some time, these government-owned plants are either operating marginally, or are shut down for repairs. The central unit at El Tablazo is a complicated structure called an olefin plant, designed to convert natural gas into ethylene (150,000 metric tons a year) and propylene (95,000 metric tons a year).

Several Facilities

El Tablazo also houses a huge urea plant (90 percent of which is owned by the state), a government factory for chlorine and caustic soda, and other state-owned facilities. A natural gas plant designed to supply the olefin converter is there, along with water and electric generating facilities, a port, and other units for product distribution, storage and waste treatment. In addition, a number of smaller, mixed-capital companies have plants at the El Tablazo complex that were built to use output from the olefin facility for manufacturing a variety of more complicated petrochemical products. (Despite the near paralysis of the government units, many of the mixed-capital companies have turned a profit by importing the basic materials they require and producing chemicals and other products, thus bypassing the state-owned installations.)

The olefin plant has been a constant headache for the government. When it is not closed down for any of a thousand technical reasons, it produces ethylene and propylene that are not commercially useful. In its 1976 report, the Venezuelan Petrochemical Institute (which until last year was responsible for government interests in the petrochemical industry) noted that the plant could not turn out ethylene of the purity desired because of "problems in operation of equipment." Some people thought this statement should take a prize for official understatement of the disaster.

Besides the apparently unsolvable problems with its central unit, El Tablazo suffered from a host of other complications: water and electricity were not available in adequate quantities from the government agencies responsible for these services; the natural gas supplied by another state entity was not of the quality needed; thousands of meters of pipeline were apparently unusable and main sections of the plant had to be closed down while the pipeline was replaced.

Political Issue

Every time a major breakdown occurred, the situation would be

complicated by parties in opposition to the government of President Carlos Andres Perez who would turn the petrochemical plant's problems into a political issue.

"A petrochemical plant like El Tablazo is an extremely complicated enterprise," a Venezuelan petroleum expert said. "In order for it to operate efficiently, a great many systems must be functioning smoothly at the same time. And if something goes awry, you must have someone on the spot who can sort things out. The sad thing is that we not only run into endless technical problems, but we didn't have the experienced petrochemical engineers available working for the government. On top of this, the complex was converted into a political football."

Who is to blame for the country's petrochemical problems? The billion-bolivar fiasco at El Tablazo is a good example of what has happened in the rest of the government-run industry. In the past, when a major failure occurred, opposition parties threw the blame on the government for incompetence. A government spokesman, in turn, would say that planning by the previous administration (headed by a different political party) was responsible. Representatives of the previous Social Christian party government naturally defended their work and accused the present leaders of sabotaging their petrochemical plan out of political spite. And so the argument continues.

The Blame

The responsibility for allowing Venezuela to endanger hundreds of millions of bolivars in investment and to lose tens of millions each year through production shortages is hard to assign. Certainly the blame must be shared in varying proportions by official incompetence, the present administration's allowing problems to reach critical levels before taking action, shortages of skilled personnel, carelessness on the part of some suppliers—and bad luck, with latter playing a small but recurring role.

The government's latest effort to reform the sector by placing under the control of Petroleos de Venezuela is a prudent move, one that came far too late. The industry will require considerable new infusions of capital in order to make it work and bring it up to date. In the meantime, Venezuela will pay the bill for correcting costly error and must continue to spend even more to import petrochemical products that the country cannot yet manufacture.

Small, Influential Country Broadens Foreign Policy Horizons

CARACAS (IHT)—During the past two decades, the salient features of Venezuela's foreign policy have been the good, sturdy stuff of regional interests.

Democratically elected governments here, for example, experienced bitter confrontations with the former dictator of the Dominican Republic, Rafael Leonidas Trujillo, and with Cuban President Fidel Castro. Each man had supported efforts aimed at overthrowing Venezuelan governments. Both initiatives were repulsed. For a number of years Venezuelan leaders also expressed their dissatisfaction with U.S. import limitations affecting this country's economic

lifeblood—petroleum. The results were not always gratifying.

More recently, foreign policy questions have turned prosaic. Local newspapers avidly follow the progress of the Foreign Ministry in defining borders with Brazil and Colombia (some politicians wonder if Brazilian hegemony is edging northward), mediating fishing disputes with Trinidad, counting Colombians living illegally in Venezuela (best estimates say over one million) and deciding who owns a big chunk of jungle claimed by both Venezuela and Guyana.

Since President Carlos Andres Perez took office four years ago, however, the country's foreign policy horizons have broadened consid-

erably. Mr. Perez and his foreign policy spokesmen have appealed for a new world economic order at various international forums, and they have worked doggedly to promote economic cooperation in Latin America and the Caribbean.

Mr. Perez took the Ford administration to task after it declared verbal war on the Organization of Petroleum Exporting Countries (OPEC), but he was the only influential leader in Latin America to back President Jimmy Carter's initiatives on human rights and control of nuclear armaments.

The Venezuelan leader, one of a handful of popularly elected governors in the region, ranked more than one local dictator when he

openly lamented the proliferation of military regimes and called for international inspection to guarantee human rights. The military governments of Argentina, Brazil, Chile and Uruguay, criticized repeatedly for the torture and murder of political foes, were particularly piqued by the Venezuelan's comments. And Brazil, which considers itself many notches above its Spanish-speaking neighbors, was loath to accept lectures from President Perez on nuclear control after feeling considerable heat from Washington on its reactor deal with West Germany.

In addition, the Perez administration has committed \$3.6 billion for bilateral and multilateral foreign aid to Latin American and Caribbean neighbors, a figure equal to more than 10 percent of the country's gross domestic product.

A founding member of OPEC, Venezuela has played a role in the oil producers' group. In 1977, President Perez helped resolve differences over oil prices between the hawks and doves who caused a serious split in the group.

Venezuela has been prominent in stating its views at the United Nations, the North-South Conference in Paris and the Organization of American States (OAS). The nation has supplied substantial financial and moral support to the World Bank, the International

Monetary Fund (IMF) and the Andean Common Market as well as to the Latin American Economic System (SELA), a group founded to promote regional and economic integration in Latin America and the Caribbean.

The Venezuelan president has traveled widely to promote his foreign policy interests and to enhance Venezuela's image outside the U.S. sphere of influence.

Popularity Abroad

The president's popularity and influence abroad has been helped by the fact that his country has a lot of money to spend. Foreign leaders have been eager to promote

goodwill between their own salesmen and the Venezuelans, and neighboring countries have wanted Venezuelan backing for their own projects.

Perhaps more important, though, have been the Venezuelan leader's timing and style. As the head of a developing, oil-producing country that is a member of OPEC, Mr. Perez could speak with authority about Third World problems and he has chosen to avoid the inflammatory language so often used in these discussions. His popularity in Washington has been aided by his status as a freely elected leader in a friendly country and by his candid support for principles such as human rights and nuclear controls,

despite the negative impact these attitudes have had in Latin America. Furthermore, Mr. Perez played a key mediating role during talks on drafting a new set of treaties governing the Panama Canal and frequently served as a go-between with Gen. Omar Torrijos and the United States during the canal negotiations.

Venezuela's generosity in foreign aid and the president's opinions on international affairs have not won him universal acclaim, however. Early in the Perez administration, Trinidad accused Venezuela of attempting to foment "economic imperialism" in the Caribbean. And only recently, Nicaragua's President Anastasio Somoza accused the Perez government of interfering in Nicaragua's internal affairs because of Venezuela's repeated calls for OAS inspection of human rights conditions there.

At home, opposition parties have criticized Mr. Perez for giving away too much money only to borrow abroad to pay for the government's own programs; they also feel that the president should concentrate more on domestic problems rather than foreign.

During a recent speech in the Venezuelan Congress, Deputy Ramon Escovar Salom, formerly foreign minister under President Perez, presented what many found to be a thoughtful evaluation of the administration's initiatives. While noting that the Perez government had succeeded in developing "an independent foreign policy for Venezuela," Mr. Escovar went on to criticize the scope of this new policy and the deficiencies in the Ministry of Foreign Affairs itself.

"In the coming years, Venezuela must regain its proportions. What does this mean? During these years we've flown at 900 kilometers per hour in a DC-3. Venezuela has achieved a very important participation in world affairs, but we weren't prepared, we didn't have a structure," he told the Lower House of Congress.

"When I speak of proportions, I mean that Venezuela must act not like a world power—because it is not and never will be—but like a small influential country. . . . This is what I call an international policy in keeping with (our) proportions. We cannot play at being a great power because this would be, among other things, an illusion and an irresponsible act." —J.M.

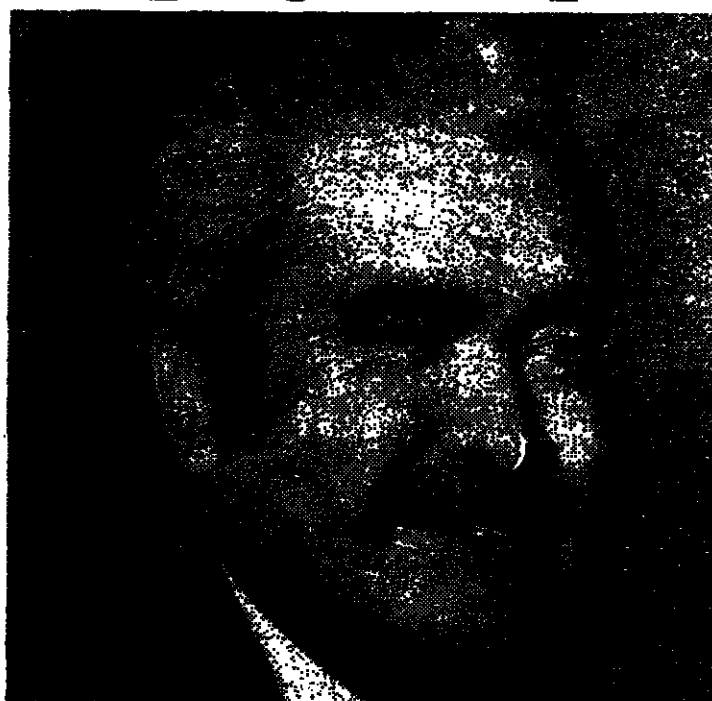
Noisy Campaign Prepares Sixth Free Presidential Elections

(Continued from Page 1)

launching of the most costly and ambitious development program ever proposed for Venezuela and industry and agriculture. And although the president's formerly high level of popularity has waned, according to a number of polls, many Venezuelans will vividly remember that Mr. Perez raised international recognition of Venezuela through his dynamic foreign policy. Furthermore, they have seen him exhibit genuine concern for domestic problems and devote himself almost entirely to the tasks of the presidency.

Other candidates who have tossed their hats into the ring thus far are: Diego Arria, an independent who served as governor of the Federal District (Caracas) and as minister of information under President Perez; Jose Vicente Rangel of the Movement Toward Socialism (MAS); Luis Beltran Prieto, a senator who broke with AD in 1967 and now is president of the People's Electoral Movement (MEP); Deputy Secretary Americo Martin of the Revolutionary Left Movement (MLR); and Hector Mujica of the Venezuelan Communist party (PCV). Pedro Pablo Salas Castillo of the Nationalist Front (Frente Nacional) and Alejandro Gomez Silva of the United Nationalist Front (Frente)

Both Mr. Rangel of MAS and Mr. Martin of MLR represent young, far-left parties that have worked extensively among unions



Copei party candidate Luis Herrera Campins.

and the urban poor. The two candidates, like the Social Christian representative, have been able to attack the Perez administration—and by implication the reputation of Democratic Action—for its failures over the last four years. Both are appealing speakers who have good chances to draw votes to the far

left. In its first presidential campaign in 1973, MAS won 4.2 percent of the total vote for president and drew the third largest block of representatives in Congress. (The 5.3 percent MAS garnered in Congressional votes, though, was still far behind the two principal parties.) In the same year, MLR

won only 1 percent of the votes cast for Congress.

Even though Mr. Arria has not yet begun to campaign in earnest, informed observers expect that he will win a substantial number of votes due to his popularity and clever use of the media while serving as governor. Mr. Arria, a young, handsome economist who formerly worked for the Inter-American Development Bank in Washington, is adopting an essentially anti-party program. His contention is that the traditional parties in Venezuela have failed to resolve the most pressing national problems and therefore should be discredited in the eyes of the voters. Like the two major party candidates, Mr. Arria has sought foreign expertise in planning his media and campaign strategy.

Democratic Action, which won a resounding victory in 1973, is now hard at work to restore any confidence that might have been lost during the Perez years. In the elections five years ago, AD captured the presidency with 48.5 percent of the valid votes cast, easily beating Copei's candidate, Lorenzo Fernandez, who won 36.5 percent of the total. AD also captured an overwhelming majority in the national Congress, and in state and local posts. Other contenders in the 1973 presidential sweepstakes individually drew small percentages.

Both AD and Copei, majority parties with clear links to Venezuela's private sector oligarchy, will



Democratic Action candidate Luis Pinera Ordaz.

have to face challenges from other groups as to their right to pre-eminence in Venezuelan politics. Although both major parties espouse left-of-center, reformist philosophies, and between them have run the country for the last two decades, Venezuelan deficiencies are still painfully obvious. Both Mr.

Arria and the smaller, established opposition groups will be hammering on the nation that the two traditional parties are, in essence, the 'tweedledum' and 'tweedledee' of Venezuelan politics, and that they are more interested in promoting their own parties than in seriously

moving to resolve national problems.

Naturally, none of the smaller opposition groups has had a chance to demonstrate how it would perform were it to win the presidency. Indeed, if by chance one of the smaller groups were to win the presidential chair, it would hardly be able to govern effectively without substantial backing in Congress.

The Votes

It is plain to most people here that either AD or Copei will be the winner in December when the votes for president are counted. What is not so plain, however, is how the new Congress will stack up: whether AD will be able to maintain an effective majority or whether a popular figure like Mr. Arria will win his own block of legislators and thus be in a position to form a majority with either of the two principal forces.

In any case, a warning goes with the future presidency: Although oil resources will continue to fill the Treasury's coffers over the next few years as long as the United States continues to buy Venezuelan oil, the bills accumulated by the current administration's extravagance are already beginning to pile up. Big budget surpluses are a thing of the past, and the government that takes over next March will have a difficult time indeed in making ends meet.

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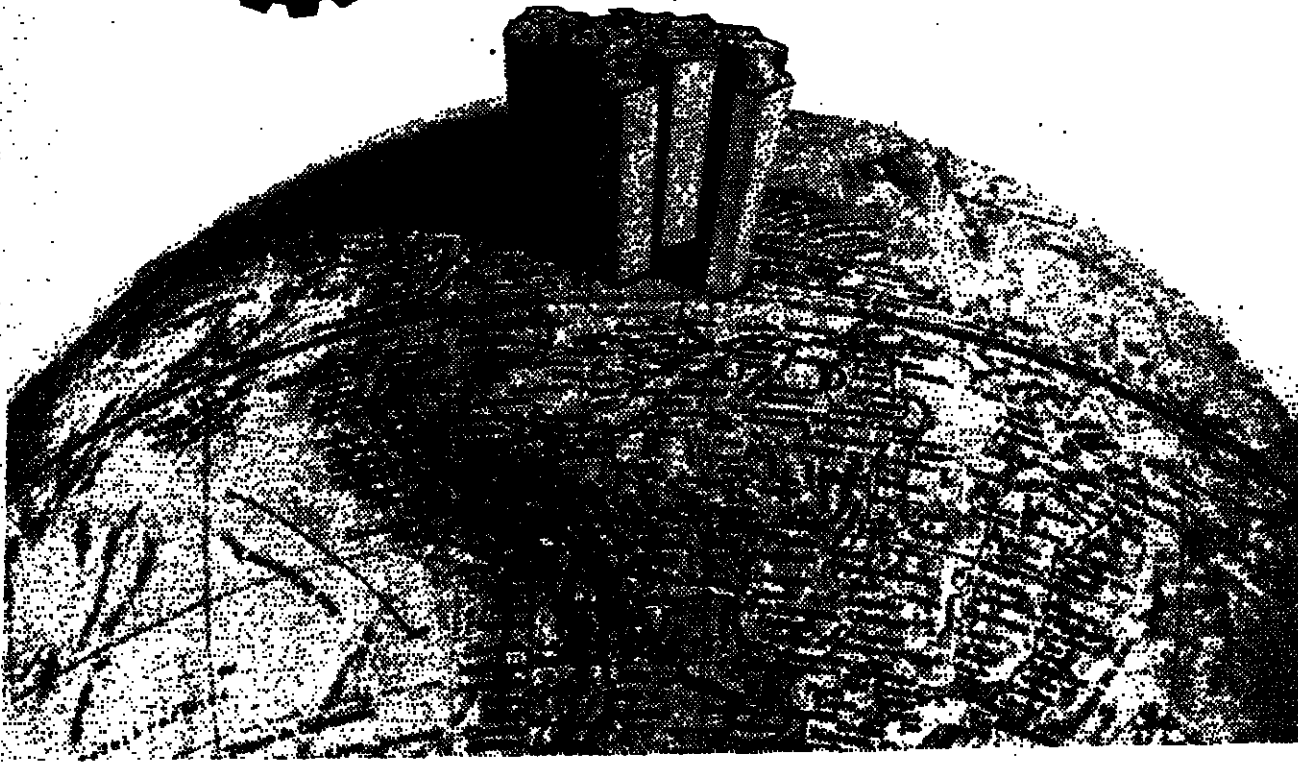
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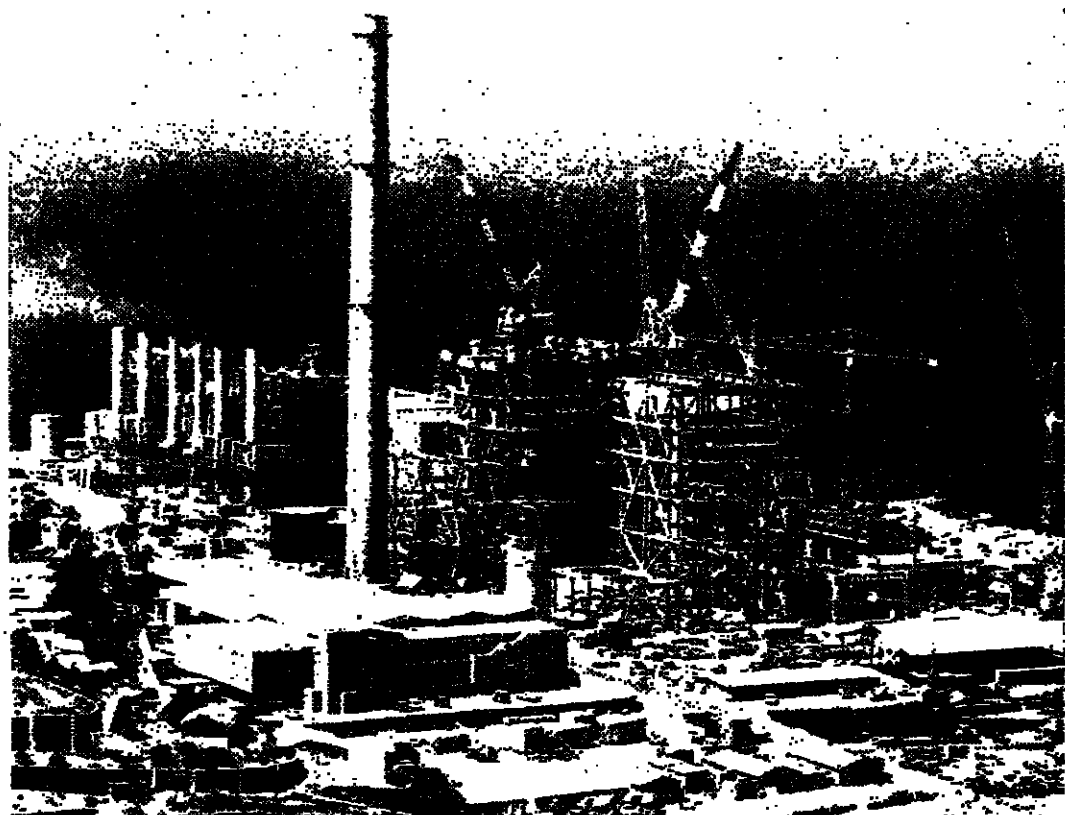
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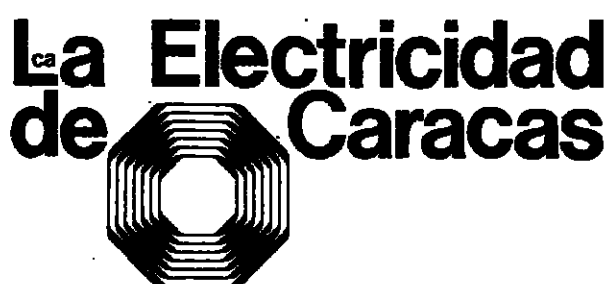
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C.A. LA ELECTRICIDAD DE CARACAS MEETS THE CHALLENGE



Expansion work being carried out at the TACO Plant, scheduled for completion in 1981, when the generating capacity will be increased to 1,200 MW.

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Press Is Free—But Not on All Subjects

By Monte K. Hayes

CARACAS (IHT)—One night not long ago in a movie theater, a government-prepared commercial flashed onto the screen minutes before the feature film was scheduled to start.

The commercial reminded the audience that with the birth of Venezuelan democracy 20 years ago political exiles had become a thing of the past. The rest of the message was drowned out by hoots of laughter from the viewers.

"What about Olavarria?" shouted various members of the audience.

Only days earlier, Jorge Olavarria, editor of the news magazine *Resumen*, had requested and been granted political asylum by Nicaragua. Mr. Olavarria, a former ambassador to Britain, charged that the government of President Carlos Andres Perez had taken advantage of a private suit against him by his former wife to harass him illegally. He claimed that the government's intention was to force the closure of his magazine because of its severe criticism of the president and his top advisers.

The government denies the accusation, responding that the legal action against the editor is a private matter between him and his ex-wife and that he is free to return to Venezuela whenever he wants. But many Venezuelans are skeptical of the government's plans.

The Olavarria affair is the latest in a series of incidents over the last few years in which the freedom of the press has allegedly been violated.

Nevertheless, the Inter American Press Association (IAPA) recently described Venezuela as one of only six nations in the Western Hemisphere that enjoy freedom of the press. The others are the United States, Canada, Costa Rica, the Dutch Antilles and the Dominican Republic.

Press Freedom

Venezuela's inclusion in this elite group, however, may be in jeopardy. The IAPA is currently studying the Olavarria affair to determine if there has been a violation of press freedom.

Presidential candidate Luis Herrera Campins of the major opposition party, Copei (Social Christian party), believes that the Olavarria

case "began as the result of a difficult personal situation that had little to do with press freedom, but that the government later made use of the situation to silence one of its opponents."

Press freedom exists as long as certain subjects are not touched," observed Jose Vicente Rangel, presidential candidate of the Movement Towards Socialism (MAS) and winner of the National Journalism Award for his political columns.

The fact is, though, that by Third World standards Venezuelan newspapers and broadcasting media have a great deal of liberty to present news and express opinions. Evidence of this can be seen by the sharp criticism of the government expressed in print and on the air as a result of Mr. Olavarria's difficulties.

"Watergate"

In few other Latin American countries could a political columnist write, as did Alfredo Tarre Murzi, that the Olavarria affair was a "Watergate in reverse," in which the individual who denounced the violation of laws was threatened with prison, rather than the lawbreakers.

The IAPA affirmed that there is unconditional freedom of press in Venezuela. That is not true," asserted Mr. Tarre Murzi, Venezuela's most widely read political commentator.

After listing examples of government action against other newsmen as well as other publications, he continued: "The case of Jorge Olavarria has been in recent months the most relevant example of abuse of an editor of an opposition magazine."

The journalist, who writes under the pseudonym of Sanin, accused the government of taking advantage of a civil suit against the editor to pressure the courts on two occasions into violating due process of law, and issuing orders for the arrest of Mr. Olavarria.

The editor spent 48 days in jail as a result of the first arrest order. It was after the second arrest order was issued that he decided to flee the country.

Sanin also accused the government of pressuring advertisers into abandoning *Resumen*. Whatever the reason, government advertising, which provides a large chunk of revenue for most Venezuelan

media, has disappeared from the publication, and ads by private companies have dropped off to a fraction of what they once represented.

Copei's Mr. Herrera promised during a recent meeting with the National Association of Journalists that if elected president he would not threaten to withhold government advertising from opposition publications. He also pledged not to manipulate government loans to small, provincial newspapers to secure their support.

Other examples of press muzzling cited by critics include the 48-hour shutdown two years ago of a television station following an interview with one of the alleged kidnappers of a U.S. businessman; the confiscation of the pressrun of a newspaper for publishing a communique from the same kidnappers; the encirclement by government agents of another newspaper's print shop to review the contents of that day's issue; the three-day shutdown of a radio station for broadcasting an inflammatory interview with student protesters; the suspension of a radio talk show for disrespectful statements about the president and his wife and the jailing for several weeks of a woman journalist who interviewed a band of guerrillas in their jungle hideout.

In another incident, President Perez was on the verge of suing Venezuela's English-language newspaper, *The Daily Journal*, for publishing an interview with the jailed anti-Castro Cuban terrorist Orlando Bosch. In the interview Dr. Bosch, a physician by training, accused the Venezuelan leader of being "a traitor to democracy" for not releasing him from prison. Under Venezuela's penal code, disrespectful statements about the president are punishable with prison sentences.

Clear Message

At the last minute President Perez restricted his suit to Dr. Bosch. The message, however, came across strong and clear to Venezuelan newspapers.

In a recent interview, Diego Arria, who served as information minister until he resigned to run for president as an independent, dismissed charges that the government had harassed Mr. Olavarria

through court actions and the use of government-owned television and radio stations. He argued that the editor's legal problems stemmed from a conflict with his ex-wife and were not even remotely connected with the government.

Mr. Arria also maintained that in the other cases cited, the government "has in every instance adhered to the strict letter of the law and has always released the corresponding explanations of its acts."

Frequently when press freedom has been violated, the government has defended its actions by arguing that they were necessary to protect this country's "fragile" democratic institutions. The argument is that these institutions are still not strong enough to endure severe criticism. In addition to the presidency, another institution specifically protected by law from public criticism is the armed forces.

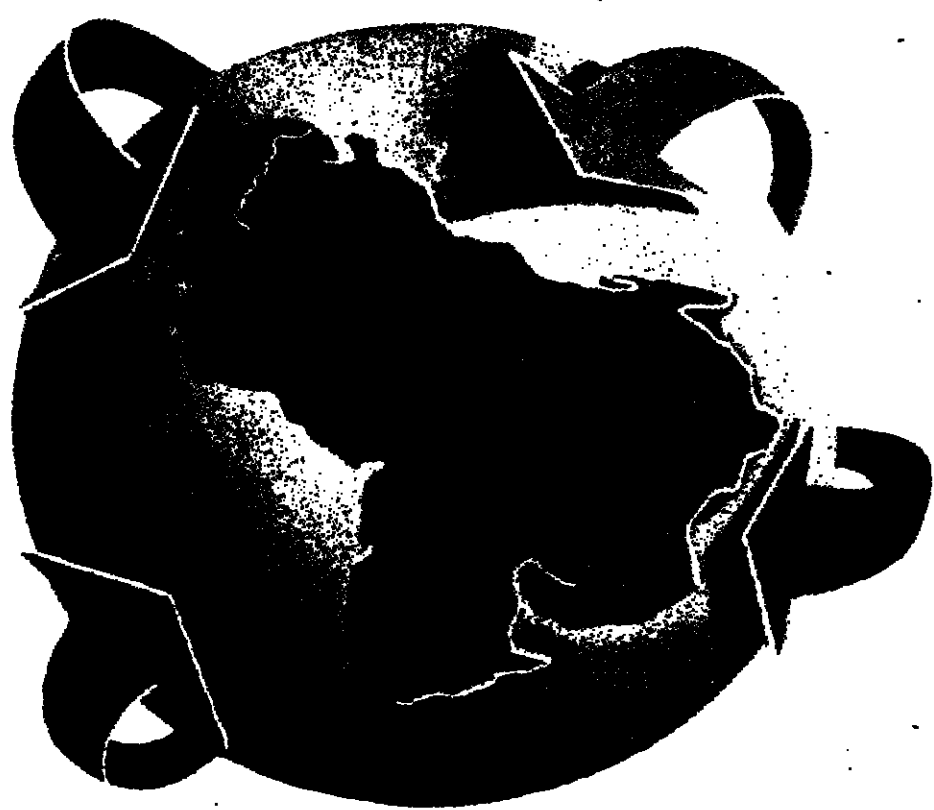
Despite these limitations, the Venezuelan press does have a great deal of freedom to print news embarrassing to the government. Newspapers and broadcasting media, for instance, are currently reporting in great detail on several cases of corruption allegedly involving high government officials.

The Perez administration has also come under fire from the IAPA for its enthusiastic support of the creation of a Latin American-owned-and-operated news agency to offset what Mr. Perez and his top advisers see as the overly negative image of the region presented by the international wire services in the United States and Europe.

On more than one occasion Mr. Perez has voiced support for controls on the flow of information from one country to another to insure that it is "truthful." In this position he approximates the views of many other Third World nations unhappy with the coverage given by the foreign news agencies.

Venezuela is a nation still molding its economic and political framework. That situation offers hope for the future, but it also carries with it risks, as Copei's Mr. Herrera warned not long ago.

"In a government like ours," he said, "which has nationalized oil and iron and is growing stronger every day, the temptation always exists to abuse its powers."



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